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ABSTRACT

The impending devolution of program responsibility from the federal government to states and localities will probably increase their responsibility for designing and funding strategies for services to children and families. This paper presents state-by-state profiles of patterns of spending for education and other key health, welfare, and social services. The paper identifies factors that appear to drive spending costs: the need for education and other children's services in the state; the ability to pay (fiscal capacity); and the willingness to pay (fiscal effort). This context is then used to draw implications with regard to state spending for education and non-education children's services in the near future and beyond. The report looks at changes in state spending over time, as well as recent cross-sectional state data. In summary, the salience of indicators of need and ability to pay indicates that most states will be greatly challenged in financing these programs in the years ahead. Furthermore, the strong negative relationship between willingness to pay and noneducation children's spending--especially among the low-spending states--implies that finding the funds to support noneducation children's services in the absence of federal fiscal incentives and service mandates may prove especially difficult in these states. In general, a combination of increased needs, slower growth in fiscal capacity, and a reduced federal role in setting standards and providing financial support will make it extremely unlikely that the vast majority of states can sustain the per-child spending patterns of the previous two decades. Three figures and 16 tables are included. Information on the Finance Project and its available resources is included. (LMI)

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STATE INVESTMENTS IN EDUCATION AND OTHER CHILDREN'S SERVICES

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The Fiscal Challenges Ahead

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The Fiscal Challenges Ahead

November 1995

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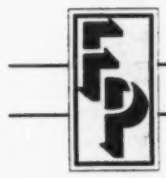

THE FINANCE PROJECT

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PREFACE

States and communities are under increasing pressure to improve their education, health and welfare systems. If Congress has its way, they will also play a larger role in designing, operating and paying for education and other supports and services for children and their families. As debate continues on Capitol Hill about the specifics of new legislation to reform the nation's welfare system and devolve control to the states, the looming question is whether the states are ready for what these major shifts in federal policy may bring?

Most states are in the best financial shape they have been in for years.[1] Revenues and expenditures were higher than originally budgeted for in most states during 1993 and 1994, and strong revenue growth has allowed some states to build reserves to their highest levels since 1980. Yet changing demographic and economic conditions, as well as a changing policy landscape, suggest that many states will face significant fiscal and budgetary challenges during the remainder of the decade and beyond. The prospect of increasing school enrollments and larger responsibility for meeting the needs of low-income families with children will make it increasingly difficult for states to sustain or increase their support for education and other services in the face of slower economic growth, a changing revenue base, declining federal aid, and a political climate that is hostile to higher taxes.

States vary dramatically in their expenditures for education and a number of other health and social services. Yet the factors that led to substantially increased spending per child in some states over the past two decades--for example, economic growth and declining school enrollments--are unlikely to continue. If economic growth slows somewhat and the school-age population increases as projected, states will need additional funds to pay for education. Similarly, if child poverty rates increase even modestly, states will have a more difficult time meeting the needs of low-income children and families.

Some states have anticipated these demographic and economic shifts and the budgetary pressures they will entail. They have become laboratories for public finance reform. Across the country, states have launched an array of efforts to improve financing and to make government work better and more efficiently. Some of these have focused on tax reform and new dedicated sources of revenue for education and other children's services. Some have sought to streamline service delivery, create more integrated service systems, and develop more flexible funding authorities to support them. Others have focused on developing and implementing more performance-based approaches to planning and budgeting. Still others are devolving control to cities and counties in order to tailor service delivery to local needs and shift a greater share of financial responsibility to local governments. While none of these innovative efforts is a proven panacea, they all represent interesting responses to the rapidly changing environment in which many states are carrying out their long-standing role as providers, regulators and funders of education and other children's services. Their

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[1] National Conference of State Legislatures and National Association of Legislative Fiscal Officers, State Budget and Tax Actions 1995: Preliminary Report. Denver, CO: National Conference of State Legislatures, July 1995.

experiences are instructive and will become even more salient as more states position themselves to manage in a newly defined relationship with the federal government and with their local communities.

Against this backdrop, The Finance Project has conducted a series of studies of state financing for education and other children's services. These include:

- *State Investments in Education and Other Children's Services: Fiscal Profiles of the 50 States*--state-by-state profiles of patterns of spending on education and other key health, welfare, and social services, and of significant economic and demographic factors influencing spending;
- *State Investments in Education and Other Children's Services: The Fiscal Challenges Ahead*--an analysis of factors affecting spending and their future implications given the changing demographic, economic, and policy context; and
- *State Investments in Education and Other Children's Services: Case Studies of Financing Innovations*--examinations of the experiences of seven states that have launched initiatives to improve financing.

Taken together these studies paint a vivid picture of the fiscal and budgetary challenges that states will face over the coming several years. They clarify a number of the critical policy and political issues that will confront governors, state legislatures, educators and others who run programs to serve children and their families. And they highlight a variety of nascent efforts in states nationwide to improve public financing for education and other children's services.

These papers are part of a larger series of working papers on salient issues related to financing for education and other children's services produced by The Finance Project. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of their authors. By making them available to a wider audience, the intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings presented and use them to advance their own efforts to improve public financing strategies.

The Finance Project was established by a consortium of national foundations to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, the project is conducting an ambitious agenda of policy research and development activities, as well as policy-maker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

Cheryl D. Hayes
Executive Director

INTRODUCTION

As the direction of public policy points unambiguously to a larger state and local leadership role in delivering and paying for education and other children's services, the near- and long-term fiscal outlook for children's program investments in the states takes on new-found relevance. The impending devolution of program responsibility and authority from Washington to states and localities means that these governments will be increasingly expected to design and fund strategies for serving children and their families. What financing challenges are they likely to face in addressing these responsibilities? What policy implications are suggested by this financing outlook?

Answers to questions like these are central to current discussions surrounding the likely shift to federal block grants for programs such as Aid to Families with Dependent Children (AFDC) and Medicaid. Supporters and opponents of block grants posit dramatically different assumptions about the degree to which states, counties, and municipalities will serve "at-risk" populations (including children) in the absence of federally secured entitlements. Block grant advocates believe that quality supports can be maintained, if not enhanced, as responsibilities are devolved and external regulations eased. Opponents argue that vulnerable populations will receive diminished assistance. Clearly, the fiscal outlook for states and localities can be expected to heavily influence which of these alternative future scenarios ultimately proves more accurate.

In elementary and secondary education, the salient issue is not so much responding to a smaller federal fiscal role, since the overall proportion of federal financial support is less than 7 percent. Rather, it is whether states and school districts can be expected to provide the necessary financing to support dramatically increased levels of overall student academic achievement consistent with recent federal and state policies such as the National Education Goals,[1] new state curricula frameworks, and revamped performance accountability systems. As with any major reform agenda, the resource commitments that states and school districts make toward enhanced student learning will in all likelihood be substantially affected by their fiscal condition.

What resources are states and localities likely to have available to meet their responsibilities to serve children in the years ahead? In order to shed light on this question, it is instructive to examine current education and other children's service spending patterns across the states, as well as spending trends over recent years. Even a cursory look at such data reveals stark state contrasts. For example, in 1992, per-pupil spending on education was over three times higher in New Jersey than in Utah. Even more dramatically, during that same year, state spending per poor child on non-education federal matching programs for children (such as AFDC, Medicaid, and foster care), was 10 times higher in Massachusetts than Mississippi. And while per-pupil education spending among the states rose 37 percent

[1] In 1989, the President and the nation's governors agreed to six ambitious national education goals for educational performance to be achieved by the year 2000. The Goals 2000: Educate America Act, passed in March of 1994, codified these, plus two additional goals, into federal law.

in constant dollars between 1980 and 1992, real state spending on AFDC per poor family declined by 19 percent over that same time period.

The purpose of this analysis is to better understand the factors that appear to drive spending contrasts like these, and what they portend for future spending on education and other children's services. We do this by first systematically associating state spending patterns and trends with three types of potential explanatory factors:

- the *need* for education and other children's services in the states,
- the *ability to pay* (or the fiscal capacity) of states to provide children's services, and
- the *willingness to pay* (or the fiscal effort) of states and localities in support of such services.

We then use this context to draw implications with regard to state spending for education and other children's services in the near future and beyond. It is our hope that these analyses will enable policymakers at all levels to make more informed decisions on spending for education and other children's services, and to better prepare for the future.

Key Findings and Implications

State Spending on Education

This report addresses the following key questions regarding patterns and trends in state education spending and their implications for the future:

1. *How has the level of state education spending changed in recent years?*
   - Per-pupil education spending in all states grew substantially in real terms between 1970 and 1992.
   - Strong per-pupil expenditure growth occurred despite the fact that states generally devoted smaller shares of their total revenue base to support education in 1992 than in 1970, and the proportion of individual income going to education over the last two decades has remained relatively stable.
   - Even after controlling for differences in cost, there remains substantial interstate variability in education spending per pupil in both 1970 and 1992. Such variability has changed little over the past two decades.
2. *What factors influence state education spending?*
   - Declining enrollments (especially during the 1970s) and economic growth were associated with increases in education expenditures per pupil during this period.
   - States spending the most per pupil usually have relatively high incomes and/or low levels of overall education need. Similarly, states with relatively low incomes and/or high levels of need tend to have the lowest per-pupil expenditure levels.
   - The proportion of state income devoted to education spending is <u>not</u> strongly associated with per-pupil spending levels. States making large resource commitments to education (relative to their incomes) are about as likely to be low as high per-pupil spenders. And similarly, while some high per-pupil spending states are able to provide these generous levels of support by making only modest

fiscal efforts, others must devote much higher shares of their state resources to achieve the same result.

3. What do these findings suggest for future state education spending?

Our findings suggest that growth in per-pupil education spending is unlikely to continue at its 1970-to-1992 rates. The principal factors associated with strong spending increases since 1970 (i.e., economic growth and declining school enrollments) are changing. Economic projections anticipate generally lower levels of economic growth in the years ahead. Demographic forecasts predict school enrollment increases in most states. In addition, greater demands on state and local budgets can be expected from other government service sectors as a consequence of reduced federal financing. Such conditions will make it exceedingly difficult for most states to continue making per-pupil education spending increases comparable to those of the past two decades. Recent spending data from 1990 to 1994 reveal that a marked slowdown has probably already begun.

State Spending on Non-Education Children's Services

We address a similar set of key questions regarding patterns and trends in state non-education spending on children and their implications for the future:

1. What is the level of state spending for non-education children's services, and how has it changed in recent years?

- State spending on non-education children's programs is considerably smaller than state education spending. In 1992, states spent roughly one-tenth the amount they spent on education for their contributions to the nine largest federal matching programs for children, including AFDC and Medicaid.
- The variation among states in spending on non-education programs differs among programs, but overall is much greater than the variation in education spending. State spending per poor child in the highest-spending state was over 9 times the amount in the lowest-spending state for Medicaid, over 20 times the amount for AFDC, and over 11 times the amount for all programs combined.
- While growth in real state spending per poor child on non-education children's programs between 1985 and 1992 has been substantial overall, the growth rates varied greatly among the states.
- State spending per poor child on Medicaid for children grew rapidly between 1985 and 1992 in nearly every state. However, many of the states with above-average percentage increases still had below-average levels of spending per poor child in 1992.
- Compared with the growth of Medicaid spending on children, growth in real AFDC spending per poor child between 1985 and 1992 was relatively small. However, spending trends varied greatly, with many states experiencing large increases and others (mostly the largest states) decreasing their real spending levels.

2. *What factors influence state non-education spending on children?*

- States spending the most per poor child on non-education children's programs usually have relatively high incomes and/or low levels of need for these services. Similarly, states with relatively low incomes and high overall needs tend to have the lowest expenditures per poor child.
- Unlike in the education arena, the proportion of state income devoted to non-education children's programs is strongly associated with spending levels per poor child. That is, states that spend more per poor child in general devote larger proportions of their income to these programs than states spending less per poor child.

3. *What do our findings suggest for future state spending on non-education children's services?*

Our findings in the non-education area suggest that many states will have a difficult time maintaining current levels of spending on non-education programs for children, and that large variations among states in spending on these programs will persist. If child poverty rates increase, as they have over the past decade and a half, states will require more resources to meet the needs of poor children at current levels. Yet, as noted above, economic projections anticipate generally lower levels of economic growth in coming years to help fund such services. Further, the influence of federal funding reductions and changes will be much greater in non-education programs than in education. While the federal government currently contributes less than 7 percent on average to state education spending, federal matching rates for the major programs in the area of non-education children's spending range from a minimum of 50 percent to a maximum of 80 percent. In addition, provisions such as open-ended matching grants and mandated expansions of eligibility have undoubtedly influenced spending levels in some states. Thus, program structures and funding formulas that emerge under new federal financing arrangements should have major implications for future state spending on non-education children's programs.

APPROACH TO THE ISSUES

This report analyzes the fiscal challenges ahead for states in financing education and other children's services by examining patterns of state spending for these services and the major factors influencing these spending patterns. In addition to examining recent cross-sectional state data, we look at changes in state spending over time. Our approach is based on the assumption that the factors and relationships that are significant in explaining current and recent state spending will continue to affect such spending in the future.

Framework of the Analysis

The hypothesis framing our analysis is that three key factors can influence state spending for education and other children's services. These three factors are:

- the *need* for education and other children's services in the states,
- the *ability to pay* (or the fiscal capacity) of states to provide children's services, and
- the *willingness to pay* (or the fiscal effort) of states and localities in support of such services.

The relevance of these factors to the level of state spending on education and non-education children's services and the indicators used to measure each factor are discussed in this section. The following two sections present our findings regarding the relationships of these factors to actual state spending on education and non-education children's services, respectively, and discuss the implications of our findings for future state spending on these services. The final section presents a summary and conclusions highlighting the similarities and differences in the outlook for education and non-education children's services.

Service Needs

The magnitude of states' needs for children's services can be a major factor affecting the amount of resources they devote to these programs. The number of school-age children, for example, determines the size of the population that must be provided education services. Likewise, the number of children in poverty provides an indication of the potential need for spending on non-education children's services, because these programs, including income maintenance and social services, often target this population.

There are many possible ways to define indicators of the need for children's services, each of which may help explain patterns of state spending on these services. In this report, we use the *level of enrollment* and the *ratio of population to pupils* as two key indicators of the need for education services. The level of enrollment is useful for examining the influence on state education spending of the size of the population requiring education services, and for standardizing spending comparisons across states and across time. The ratio of population to pupils, by measuring the size of the entire state population relative to those receiving education services, provides indications of the degree to which the costs of education can be spread among taxpayers in a state and of the potential demand in a state for education relative to other programs. A high value on this measure indicates low overall need in a state for education services, while a low value indicates high need.

In parallel fashion, the indicators we use for estimating states' needs for non-education children's services are the *number of poor children* in a state and the *ratio of total population to the number of poor children*. As noted above, the number of poor children in a state is a rough proxy for the number of children potentially eligible to receive non-education services such as AFDC and Medicaid. We examine the influence of this variable on levels of state non-education spending and also use it to standardize spending comparisons across states and over time. The ratio of total population to the number of poor children provides an indication of the extent to which the costs of non-education services for children can be spread among taxpayers in a state and of the potential demand in a state for these services relative to others. As with the parallel measure of education need, a high population-to-poor-child ratio indicates low overall need for non-education services, while a low ratio indicates high need.

Ability to Pay

The ability to pay--or fiscal capacity--of a state can also have a major impact on the level of resources devoted to children's services. A state's fiscal capacity represents the potential of

that state to generate resources for public purposes. Thus, the higher the level of a state's fiscal capacity, the greater is its presumed ability to fund all public services, including those for children. Likewise, the stronger the growth of fiscal capacity, the greater is a state's ability to increase spending for those services.

As with indicators of need, there are many possible choices for indicators of state fiscal capacity. Some--such as per capita income--are based on broad measures of economic activity within a state, while others--such as the Representative Tax System developed by the Advisory Commission on Intergovernmental Relations--focus more directly on the revenue-raising potential of state and local governments in a state. And some measures are better at capturing the potential of states to "export" taxes to, or raise revenues from, non-residents than are others. Nevertheless, the fiscal capacity indices for most states tend to differ very little depending on what measure is used--except in those states with relatively large oil production or tourism industries, where the potential for tax exporting is the greatest.

In this report, we use *per capita personal income* as the indicator of a state's ability to pay for public services, including children's services. Per capita income is a major component of a state's capacity to raise revenues for public services, because most taxes are paid from the income of a state's residents. Per capita income is the most widely used indicator of fiscal capacity and the most readily available for the years examined in this study.

This report focuses on states' spending for education and other children's services from their own resources. As such, the concept of fiscal capacity used in this report does not include federal aid. Although federal grants to states for children's services affect the ability of states to finance these programs, and major changes in these grants are likely, the current and potential impact of federal grants on state spending for children will be discussed separately from the influence of state fiscal capacity.

Willingness to Pay

The third major factor that can affect state spending for education and other children's services is a state's willingness to pay for these services. Willingness to pay is captured by the "fiscal effort" a state makes. Fiscal effort relates a state's actual revenues or spending to its fiscal capacity. Because fiscal capacity varies across states, a state with lower fiscal capacity will have to use a greater share of its capacity to achieve the same service levels as a state with higher fiscal capacity (all else being equal) and vice versa. Fiscal effort thus provides a measure of the relative burden placed on a state's resources, or the "effort" made to achieve the service levels that are provided.[2]

Fiscal effort can be measured for the total of all revenues or spending (i.e., the overall fiscal effort of a state) or for selected categories. In this report, we use measures of *education effort* and *non-education effort*. Education effort is defined as education spending per $100 of personal income, and non-education effort is defined as spending on non-education

[2] Fiscal effort may be a flawed proxy for willingness to pay if there are external constraints on spending levels, such as federal mandates, court orders, or state constitutional requirements for allocating funding.

children's services per $100 of income. Because we use personal income (on a per capita basis) as our indicator of fiscal capacity, we also use it in defining our measures of fiscal effort.

Relationship of Service Needs, Ability to Pay, and Willingness to Pay

We have noted above that service needs, ability to pay (or fiscal capacity), and willingness to pay (or fiscal effort) can each independently affect state spending levels. But how do these factors interrelate in each state to affect spending? The interaction for education spending can be described by the following mathematical identity developed by Gold[3]:

School Spending/Pupils = Spending/Income * Income/Population * Population/Pupils

In this equation, we see that education service levels (school spending per pupil) is a multiplicative function of fiscal effort (spending in relation to personal income); fiscal capacity (per capita income); and service needs (the ratio of population to pupils). A similar identity can be created to examine the relationship of fiscal effort, fiscal capacity, and service needs to non-education children's spending if the number of poor children is substituted for pupils in the equation. The mathematical identities, in effect, decompose state per-child spending levels into service needs, fiscal capacity, and fiscal effort components. As will be seen later in this report, by relating each component in a state to its corresponding value for the United States as a whole, its relative contribution in explaining that state's spending can be observed.

Features of Our Presentation and Data

Our analysis primarily examines national patterns and trends in the data and discusses what they are likely to mean for most states in the future. Because of the great variation among states, however, we also present state-by-state data and highlight significant variations among states or regions where they exist.[4]

Our work relies on data compiled by Steven D. Gold *et al.* and published in *State Investments In Education and Other Children's Services: Fiscal Profiles of the 50 States,*[5] as well as an unpublished analysis prepared for The Finance Project by the same authors.[6] That database contains state-by-state data as well as national data on state spending for education and other children's services and related economic and demographic factors. Some of the parameters of that database are described below.

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[3] Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, Washington, D.C., May 1995, p. 28.

[4] Intrastate variations in spending and other variables can be as large or larger than interstate variations. Discussion of the extent and significance of intrastate variations is beyond the scope of this report, however.

[5] Steven D. Gold *et al.*, *State Investments in Education and Other Children's Services: Fiscal Profiles of the 50 States*, prepared for The Finance Project, Washington, D.C., September 1995.

[6] Gold *et al.*, "How Funding Varies," May 1995.

Definitions of State Spending for Children's Services

State spending on education is defined as all current spending for public elementary and secondary education in a state. It thus excludes expenditures for capital improvement and focuses only on ongoing expenditures for K-12 education. Education spending includes spending from federal revenue sources. However, because the federal contribution to state elementary-secondary education spending is relatively small (in 1992, less than 7 percent[7]), this measure of education spending primarily reflects the commitment of states--including their local governments--to education spending from their own resources.

No comprehensive information is available on the total amount that state and local governments spend on children's programs other than elementary-secondary education. However, most non-education spending in the states occurs through their contributions to federal programs, which are used to match federal funds for programs such as Medicaid, AFDC, and foster care. Thus, *non-education children's spending* is defined as the amount that states and their local governments spend through their matching contributions on the nine largest federal matching programs. These include (1) AFDC, (2) AFDC child care, (3) Medicaid spending on children, (4) foster care, (5) maternal and child health block grant, (6) child support enforcement, (7) at-risk child care, (8) adoption assistance, and (9) child welfare. This definition captures a large proportion--though not all--of state children's spending other than for education. It does not take into account spending for non-federal programs, nor does it consider how much states and local communities might spend in excess of the matching contributions in the nine programs included. It thus provides a lower-bound estimate of state spending for children's non-education programs.

Time Periods

The database includes data for 1992--the most recent year for which all the data were available--as well as historical data for selected years spanning more than two decades. Data on education spending and most of the related economic and demographic variables are for 1970, 1980, and 1992.[8] Data on non-education spending and related variables encompass a shorter time frame--1985 and 1992. This shorter time frame for non-education programs was chosen because some of these programs have been established only recently and because the data for other programs were not available for a longer time period.

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[7] Although the federal contribution to education spending ranged as high as 17.7 percent in one state (Mississippi), in 40 of the 50 states, the federal contribution was less than 10 percent.

[8] Some of the data are in fiscal years or school years rather than calendar years. For example, state fiscal data are for the fiscal year ending in the year indicated, while school enrollment data are based on fall enrollments in the year preceding the year indicated, since most of the school year falls in the following calendar year. In addition, where personal income is compared with spending (which is on a fiscal year basis) or other variables, the personal income data are for the calendar year preceding the year indicated.

Adjustments for Inflation and Differences in Price Levels

Inflation reduces the value of a dollar of spending over time. To adjust for this effect, all fiscal data are presented in constant 1992 dollars.[9] Our comparisons of revenue, spending, and income data over time thus represent real changes in the levels of these variables, after accounting for the effects of inflation.

Likewise, differences in price levels among locations can bias interstate comparisons because of their effect on the purchasing power of families and governments. A family with a $40,000 annual income in Boston, for example, has much less purchasing power than one with the same income living in Jackson, Mississippi. However, because valid and reliable state-level price-adjusted data are less readily available than non-adjusted data (especially over time), most of the data in this report are unadjusted. In the few instances where we have used an existing index to adjust for interstate price-level differences (see, for example, Table 1),[10] the results suggest that such adjustments narrow but do not eliminate the wide variations among states.

KEY FINDINGS: PATTERNS AND TRENDS IN EDUCATION SPENDING

Elementary and secondary education constitutes by far the largest single category of spending by state and local governments. In 1992, states devoted 34 percent of their tax revenues to finance K-12 education, compared with about 20 percent for health, 12 percent for higher education, and 8 percent for social welfare. Thirty-eight cents of every state and local tax dollar that year supported education.[11] Elementary and secondary education is unique among children's program areas in that participation is both universal and fully subsidized by the state. These facts distinguish education from other children's service sectors, where participation is limited to children and/or families meeting a designated income standard or other defining child or family characteristic.

The magnitude of state and local educational investments should not obscure the fact that states vary considerably in both their levels of education spending and rates of expenditure growth. New Jersey spent over $9,000 per pupil in 1992, a figure that is about three times greater than that for Utah. Even when spending is adjusted for differences in the cost of living, substantial differences remain (Table 1). And while the last two decades were

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[9] Data on education spending were adjusted using the implicit price deflator for state and local government purchases, while data on non-education children's spending were adjusted using the OMB deflator for payments to individuals. Per capita income data were adjusted using the fixed-weight personal consumption expenditure deflator.

[10] There have been at least two recent efforts to develop indices of state price-level differences. The index used in this report to illustrate the effect of adjusting state education spending for price level differences was developed by F. Howard Nelson of the American Federation of Teachers Research Department and is contained in F. Howard Nelson, "An Interstate Cost of Living Index," *Educational Evaluation and Policy Analysis*, Spring, 1991, Vol. 13, pp. 103-111. Another index used in this report to adjust state fiscal capacity was developed by Herman Leonard and Monica Fryar and is contained in *By Choice or By Chance?* (Boston: Pioneer Institute, 1994).

[11] These figures are found in Gold *et al.*, "How Funding Varies," May 1995, Tbs. 4-14 and 4-12, respectively.

Table 1

Current Education Spending per Pupil, 1992

	Unadjusted Spending	Index (U.S. = 100)	Spending Adjusted for Cost Differences*	Index (U.S. = 100)
United States	$5,421	100	$5,421	100
New Jersey	9,317	172	7,302	135
New York	8,527	157	7,251	134
Alaska	8,450	156	6,387	118
Connecticut	8,017	148	6,258	115
Vermont	6,944	128	6,855	126
Maryland	6,679	123	5,808	107
Pennsylvania	6,613	122	6,186	114
Rhode Island	6,546	121	6,017	111
Massachusetts	6,408	118	5,344	99
Michigan	6,268	116	6,725	124
Wisconsin	6,139	113	6,658	123
Delaware	6,093	112	5,544	102
Oregon	5,913	109	6,231	115
Wyoming	5,812	107	6,144	113
New Hampshire	5,790	107	5,341	99
Ohio	5,694	105	6,116	113
Illinois	5,670	105	5,870	108
Maine	5,652	104	5,618	104
Montana	5,423	100	5,901	109
Hawaii	5,420	100	4,091	75
Minnesota	5,409	100	5,760	106
Washington	5,271	97	5,368	99
Nebraska	5,263	97	5,835	108
Florida	5,243	97	5,687	105
Colorado	5,172	95	5,219	96
West Virginia	5,109	94	5,872	108
Iowa	5,096	94	5,669	105
Indiana	5,074	94	5,600	103
Kansas	5,007	92	5,594	103
Nevada	4,926	91	5,027	93
Virginia	4,880	90	5,304	98
Missouri	4,830	89	5,279	97
California	4,746	88	4,280	79
Kentucky	4,719	87	5,356	99
Texas	4,632	85	5,147	95
North Carolina	4,555	84	5,067	93
North Dakota	4,441	82	4,979	92
South Carolina	4,436	82	4,995	92
Arizona	4,381	81	4,554	84
Georgia	4,375	81	4,850	89
Louisiana	4,354	80	4,937	91
South Dakota	4,173	77	4,699	87
Oklahoma	4,079	75	4,618	85
Arkansas	4,031	74	4,602	85
New Mexico	3,765	69	4,088	75
Tennessee	3,692	68	4,148	77
Alabama	3,616	67	4,100	76
Idaho	3,556	66	3,891	72
Mississippi	3,245	60	3,738	69
Utah	3,040	56	3,304	61
Ratio between Highest- and Lowest-Spending States	3.1 to 1		2.2 to 1	
50-State Average	5,330		5,384	
Standard Deviation	1,323		889	
Coefficient of Variation	0.25		0.17	

*Spending adjusted by cost index prepared by F. Howard Nelson, American Federation of Teachers.

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and calculations by The Finance Project.

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periods of substantial real growth in educational expenditures overall (Table 2), spending disparities among the states have been unaffected by these increases (Table 3).

In this section, we attempt to document factors that influence education spending. Specifically, we address the question of how strongly indicators of educational need, fiscal capacity (ability to pay), and fiscal effort (willingness to pay) can explain spending patterns and trends among the states. To the extent that any of these factors appear salient, we can use this knowledge to make more informed judgments regarding the prospects for education spending in the future.

We begin this discussion by examining data on educational need, fiscal capacity, and fiscal effort between 1970 and 1992. We then relate these factors to changes nationally in per-pupil spending levels over this period, as well as to differences among the states in their spending levels. Finally, we discuss the implications of these findings for future education spending.

Education Spending and Need: The Importance of the Size of the School Population

Our indicator of the need for educational services in a state is the size of the total population relative to the number of children enrolled in the public schools. As noted in the previous section, the lower a state's need, the higher is its ratio of population to pupils, and vice versa. By this measure, overall service need diminished by 26 percent between 1970 and 1992. Declines occurred in every state and were especially pronounced during the decade of the 1970s. States with the lowest needs tend to be overwhelmingly in the Northeast and Great Lakes regions, while those with the highest needs are consistently found among the Southwest and Rocky Mountain states (Table 4).

Theoretically, lower levels of relative educational service needs should be good news for per-pupil education spending. This is because the financial burden of educating children who are in the public education system can be spread among more taxpayers. Conversely, higher needs would be expected to make it more difficult to generate high per-pupil spending levels. Thus, in states with smaller education needs, we might expect to see higher per-pupil spending than in states with larger education needs. Simple correlations appear to support this hypothesis. In 1992, the correlation between our measure of education need and per-pupil education spending was -0.51, while the correlation between percentage enrollment growth and per pupil spending growth (between 1970 and 1992) was -0.26.

Education Spending and Fiscal Capacity: The Importance of the Size of the Revenue Pie

While education service needs were declining over the past two decades, the capacity to finance these services was growing at a healthy rate. As measured by changes in real per capita income, state fiscal capacity grew by 31 percent in the 1970s, and 17 percent between 1979 and 1991 (Table 5). State growth patterns were generally consistent during both decades, with the notable exception of most states in the New England and Mid-Atlantic areas, where gains were stronger during the 1979-to-1991 period than from 1969 to 1979. Most high-capacity states can be found in the New England and Mid-Atlantic regions, while

Table 2

Percentage Change in Real Current Per Pupil Spending, 1970-80, 1980-92, and 1970-92

		1970-80	1980-92	1970-92
United States		26.6%	37.0%	73.4%
New England	Connecticut	15.7%	90.2%	120.0%
	Maine	19.9%	77.9%	113.2%
	Massachusetts	49.2%	30.5%	94.7%
	New Hampshi	20.5%	73.5%	109.0%
	Rhode Island	32.7%	44.5%	91.8%
	Vermont	12.5%	99.6%	124.6%
Mid-Atlantic	Delaware	44.5%	22.2%	76.7%
	Maryland	28.7%	47.6%	89.9%
	New Jersey	42.8%	67.6%	139.3%
	New York	18.6%	41.4%	67.7%
	Pennsylvania	30.7%	49.7%	95.7%
Great Lakes	Illinois	29.4%	25.8%	62.8%
	Indiana	17.5%	54.8%	81.9%
	Michigan	32.8%	36.3%	81.0%
	Ohio	29.2%	57.5%	103.6%
	Wisconsin	27.6%	42.3%	81.5%
Plains	Iowa	25.3%	25.8%	57.6%
	Kansas	28.2%	32.3%	69.5%
	Minnesota	20.1%	30.1%	56.2%
	Missouri	24.2%	43.2%	77.8%
	Nebraska	32.8%	40.5%	86.6%
	North Dakota	26.5%	32.8%	68.0%
	South Dakota	25.7%	25.5%	57.8%
Southeast	Alabama	34.7%	28.8%	73.5%
	Arkansas	26.0%	47.0%	85.2%
	Florida	17.3%	59.3%	86.9%
	Georgia	25.7%	54.5%	94.2%
	Kentucky	41.9%	59.2%	126.0%
	Louisiana	25.7%	39.5%	75.4%
	Mississippi	51.0%	11.9%	69.1%
	North Carolina	30.3%	49.1%	94.3%
	South Carolina	30.0%	45.3%	88.9%
	Tennessee	31.3%	29.6%	70.2%
	Virginia	26.5%	42.2%	79.9%
	West Virginia	30.3%	52.7%	99.0%
Southwest	Arizona	24.5%	27.6%	58.8%
	New Mexico	30.8%	6.2%	39.0%
	Oklahoma	45.0%	21.5%	76.2%
	Texas	39.6%	38.8%	93.7%
Rocky Mountain	Colorado	49.2%	22.6%	82.9%
	Idaho	25.1%	23.0%	53.9%
	Montana	44.0%	25.7%	81.0%
	Utah	20.4%	5.3%	26.7%
	Wyoming	34.2%	32.0%	77.2%
Far West	Alaska	91.4%	2.6%	96.4%
	California	18.9%	20.1%	42.9%
	Hawaii	25.5%	34.0%	68.2%
	Nevada	23.5%	35.4%	67.2%
	Oregon	32.3%	26.1%	66.8%
	Washington	27.6%	17.8%	50.4%

Note: Number of pupils is average daily attendance.

Source: National Center for Education Statistics, Digest of Education Statistics, 1994, Table 166, p. 165, reported in Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

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Table 3

Real Current Education Spending per Pupil, 1970, 1980, and 1992 (in 1992 dollars)

		1970	1980	1992
New England	Connecticut	$3,644	$4,216	$8,017
	Maine	2,651	3,178	5,652
	Massachusett	3,291	4,911	6,408
	New Hampsh	2,770	3,338	5,790
	Rhode Island	3,414	4,531	6,546
	Vermont	3,092	3,479	6,944
Mid-Atlantic	Delaware	3,448	4,984	6,093
	Maryland	3,517	4,526	6,679
	New Jersey	3,893	5,559	9,317
	New York	5,084	6,031	8,527
	Pennsylvania	3,379	4,416	6,613
Great Lakes	Illinois	3,483	4,507	5,670
	Indiana	2,789	3,279	5,074
	Michigan	3,464	4,599	6,268
	Ohio	2,797	3,615	5,694
	Wisconsin	3,383	4,315	6,139
Plains	Iowa	3,234	4,052	5,096
	Kansas	2,954	3,786	5,007
	Minnesota	3,464	4,159	5,409
	Missouri	2,716	3,373	4,830
	Nebraska	2,820	3,746	5,263
	North Dakota	2,644	3,345	4,441
	South Dakota	2,644	3,324	4,173
Southeast	Alabama	2,084	2,808	3,616
	Arkansas	2,176	2,742	4,031
	Florida	2,805	3,291	5,243
	Georgia	2,253	2,831	4,375
	Kentucky	2,088	2,963	4,719
	Louisiana	2,483	3,122	4,354
	Mississippi	1,920	2,899	3,245
	North Caroli	2,345	3,056	4,555
	South Carolin	2,349	3,052	4,436
	Tennessee	2,169	2,848	3,692
	Virginia	2,713	3,432	4,880
	West Virginia	2,567	3,345	5,109
Southwest	Arizona	2,759	3,434	4,381
	New Mexico	2,709	3,544	3,765
	Oklahoma	2,314	3,355	4,078
	Texas	2,391	3,338	4,632
Rocky Mountain	Colorado	2,828	4,218	5,172
	Idaho	2,310	2,890	3,556
	Montana	2,996	4,314	5,423
	Utah	2,398	2,887	3,040
	Wyoming	3,280	4,402	5,812
Far West	Alaska	4,303	8,237	8,450
	California	3,322	3,951	4,746
	Hawaii	3,222	4,045	5,420
	Nevada	2,946	3,638	4,926
	Oregon	3,544	4,690	5,913
	Washington	3,506	4,474	5,271
50-State Average		2,947	3,862	5,330
Range		3,165	5,495	6,277
Standard Deviation		605	971	1,323
Coefficient of Variation		0.21	0.25	0.25

Notes: Number of pupils is average daily attendance.
Figures were adjusted by the State and Local Government Implicit Price Deflator from the Economic Report of the President (1992=100).

Source: National Center for Education Statistics, Digest of Education Statistics, 1994, Table 166, p. 165, reported in Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995; and calculations by The Finance Project.

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Table 4

Ratio of Population to Public School Enrollment, 1970, 1980, and 1992

		1970	1980	1992	1992 Rank
United States		4.42	5.39	6.00	
New England	Connecticut	4.64	5.47	6.70	7
	Maine	4.13	4.94	5.71	28
	Massachusetts	4.92	5.55	7.08	1
	New Hampshir	4.76	5.35	6.26	11
	Rhode Island	5.15	6.19	7.06	2
	Vermont	4.37	5.12	5.85	24
Mid-Atlantic	Delaware	4.14	5.76	6.66	8
	Maryland	4.34	5.43	6.61	9
	New Jersey	4.88	5.73	7.00	4
	New York	5.26	5.94	6.83	6
	Pennsylvania	5.00	6.03	7.06	3
Great Lakes	Illinois	4.75	5.59	6.24	12
	Indiana	4.20	5.05	5.86	22
	Michigan	4.11	4.97	5.88	21
	Ohio	4.34	5.33	6.13	15
	Wisconsin	4.47	5.44	6.07	18
Plains	Iowa	4.25	5.32	5.68	32
	Kansas	4.31	5.55	5.99	37
	Minnesota	4.11	5.19	5.72	27
	Missouri	4.31	5.60	6.12	16
	Nebraska	4.45	5.44	5.69	30
	North Dakota	4.20	5.54	5.35	40
	South Dakota	4.01	5.15	5.34	42
Southeast	Alabama	4.16	5.13	5.66	34
	Arkansas	4.16	5.01	5.41	38
	Florida	4.72	6.28	6.87	5
	Georgia	4.09	5.00	5.63	35
	Kentucky	4.54	5.38	5.75	26
	Louisiana	4.33	5.17	5.34	41
	Mississippi	3.86	5.20	5.14	44
	North Carolina	4.24	5.04	6.15	14
	South Carolina	3.96	4.94	5.68	33
	Tennessee	4.37	5.23	5.94	20
	Virginia	4.29	5.16	6.19	13
	West Virginia	4.35	5.00	5.62	36
Southwest	Arizona	4.15	5.18	5.70	29
	New Mexico	3.66	4.65	5.01	45
	Oklahoma	4.14	5.09	5.39	39
	Texas	4.01	4.83	4.98	46
Rocky Mountain	Colorado	4.02	5.18	5.68	31
	Idaho	3.93	4.60	4.60	48
	Montana	3.97	4.99	5.18	43
	Utah	3.46	4.25	3.87	50
	Wyoming	3.81	4.74	4.49	49
Far West	Alaska	3.85	4.50	4.79	47
	California	4.29	5.65	5.95	19
	Hawaii	4.16	5.63	6.49	10
	Nevada	3.88	5.18	6.10	17
	Oregon	4.31	5.52	5.85	23
	Washington	4.07	5.22	5.77	25

Note: The 1992 population-to-enrollment ratios in this table differ slightly from the population-to-pupil ratios in Table 8. Because of data constraints, fall enrollment data were used to create the ratios in this table, while average daily attendance data were used to create the ratios in Table 8.

Source: National Center for Education Statistics, Digest of Education Statistics 1994 (NCES 94-115), reported in Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995 and calculations by The Finance Project.

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Table 5

Growth in Real Per Capita Income, 1969-1991

		Per Capita Income (1991 dollars)			Percentage Change		
		1969	1979	1991	1969-79	1979-91	1969-91
United States		$12,636	$16,485	$19,199	30.5	16.5	51.9
New England	Connecticut	15,960	19,619	25,844	22.9	31.7	61.9
	Maine	10,370	13,394	17,330	29.2	29.4	67.1
	Massachusetts	14,075	17,273	22,796	22.7	32.0	62.0
	New Hampshire	12,398	15,880	20,961	28.1	32.0	69.1
	Rhode Island	12,640	15,476	19,451	22.4	25.7	53.9
	Vermont	11,178	14,133	17,811	26.4	26.0	59.3
Mid-Atlantic	Delaware	14,648	16,809	20,317	14.8	20.9	38.7
	Maryland	13,780	17,670	22,483	28.2	27.2	63.2
	New Jersey	14,923	18,890	24,744	26.6	31.0	65.8
	New York	15,225	17,820	22,925	17.0	28.6	50.6
	Pennsylvania	12,570	16,498	19,638	31.2	19.0	56.2
Great Lakes	Illinois	14,390	18,425	20,622	28.0	11.9	43.3
	Indiana	12,189	15,776	17,275	29.4	9.5	41.7
	Michigan	13,445	17,427	18,693	29.6	7.3	39.0
	Ohio	12,872	16,343	18,001	27.0	10.1	39.8
	Wisconsin	12,179	16,416	17,970	34.8	9.5	47.5
Plains	Iowa	11,901	16,169	17,102	35.9	5.8	43.7
	Kansas	11,636	16,571	18,259	42.4	10.2	56.9
	Minnesota	12,365	16,683	19,289	34.9	15.6	56.0
	Missouri	11,715	15,712	18,105	34.1	15.2	54.5
	Nebraska	11,725	15,661	18,047	33.6	15.2	53.9
	North Dakota	9,876	14,677	15,594	48.6	6.2	57.9
	South Dakota	9,747	14,206	16,419	45.7	15.6	68.5
Southeast	Alabama	9,024	12,814	15,601	42.0	21.7	72.9
	Arkansas	8,617	12,637	14,458	46.7	14.4	67.8
	Florida	12,007	15,857	19,203	32.1	21.1	59.9
	Georgia	10,439	13,920	17,636	33.3	26.7	68.9
	Kentucky	9,700	13,522	15,442	39.4	14.2	59.2
	Louisiana	9,521	14,010	15,067	47.1	7.5	58.2
	Mississippi	7,841	11,644	13,210	48.5	13.4	68.5
	North Carolina	9,962	13,293	16,810	33.4	26.5	68.7
	South Carolina	9,216	12,509	15,469	35.7	23.7	67.8
	Tennessee	9,720	13,447	16,489	38.3	22.6	69.6
	Virginia	11,669	15,959	20,074	36.8	25.8	72.0
	West Virginia	9,167	13,299	14,665	45.1	10.3	60.0
Southwest	Arizona	11,390	15,235	16,760	33.8	10.0	47.1
	New Mexico	9,571	13,542	14,818	41.5	9.4	54.8
	Oklahoma	10,482	15,083	15,656	43.9	3.8	49.4
	Texas	11,129	16,118	17,440	44.8	8.2	56.7
Rocky Mountains	Colorado	12,182	17,191	19,745	41.1	14.9	62.1
	Idaho	10,578	14,014	15,854	32.5	13.1	49.9
	Montana	10,631	14,558	15,793	36.9	8.5	48.5
	Utah	10,022	13,452	14,737	34.2	9.5	47.1
	Wyoming	11,682	18,612	18,295	59.3	-1.7	56.6
Far West	Alaska	15,371	22,665	21,592	47.5	-4.7	40.5
	California	14,887	19,241	20,880	29.2	8.5	40.3
	Hawaii	14,698	17,486	21,621	19.0	23.7	47.1
	Nevada	14,840	19,263	20,774	29.8	7.8	40.0
	Oregon	12,100	16,723	17,789	38.2	6.4	47.0
	Washington	13,475	17,890	20,163	32.8	12.7	49.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Summary Tables (August 1994) (SA1-3,SA51-52), 1929-93, 1948-93 and calculations by The Finance Project.

low-capacity states tend to predominate in the Southeast, Southwest, and Rocky Mountain areas.[12]

Obviously, all things being equal, fiscally strong states can support generous per-pupil education spending levels more easily than can states with a poorer resource base. We would thus expect to see both higher levels of per-pupil spending in states with greater fiscal capacity, and also higher rates of per-pupil spending growth among states where fiscal capacity gains were greatest. Simple correlations reveal a strong relationship between per capita income and per-pupil spending for 1992 (0.80) and a weaker, but still substantial relationship between 1970-to-1992 changes in per capita income and changes in per-pupil spending (.52).

Education Spending and Fiscal Effort: The Importance of Educational Resource Commitments

As noted earlier, the degree to which a state taps its available resource capacity--or its fiscal effort--is the third factor explaining per-pupil education spending. A state devoting a larger share of its available resources for education will spend more per pupil than a comparable state (in terms of both need and capacity) making a more modest resource commitment.

Educational effort is really a function of two components. One is the *size* of the government sector in the state relative to overall available resources. A larger government revenue base means more resources potentially available to support educational expenditures.

The second critical component of educational effort is the *share* of government resources supporting education. Differences among states in the education share of the government pie, as well as changes in that share over time, can profoundly affect education effort levels and, ultimately, per-pupil expenditures.

Nationally, educational effort remained relatively stable from 1970 through 1992. It declined a bit in the 1970s, before growing modestly from 1980 to 1992 (Table 6). Analyzing educational effort by its two core components reveals that the small overall decrease in education effort is entirely attributable to smaller education shares of state and local tax bases. General state and local government tax effort levels remained relatively unchanged from 1970 to 1992. But the share of this resource base going to education declined from approximately 44 percent to 38 percent (Table 6). Most of this decline occurred in the 1970s and was a function of reduced local (rather than state) government education revenue shares.

The overall stability in educational effort should not obscure significant changes in some states in recent years (Table 7). Massachusetts, for example, increased its effort by nearly 30 percent in the 1970s, only to decrease it by about 25 percent during the 1980s and early 1990s. Wyoming did the opposite, decreasing effort significantly in the 1970s (18 percent) and

[12] These regional patterns remain mostly intact after adjusting fiscal capacity for interstate differences in the cost of living. The effect of adjusting for cost-of-living differences is to reduce the variation in fiscal capacity among states. For example, after adjustment, the overall fiscal capacity index of the New England region falls from 117 to 107, while that of the Southeast region rises from 89 to 97 (Gold *et al.*, "How Funding Varies," May 1995, Tb. 2-2).

Table 6

Growth in Education Spending in Relation to Personal Income and Education's Share of Tax Revenue, 1970 to 1992

	1970	1980	1992
Current Education Spending per $100 of Personal Income	$4.46	$4.30	$4.36
State-Local Education Revenue as a Percentage of Total State-Local Tax Revenue	43.5%	39.0%	38.2%

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

Table 7
Current Education Spending per $100 of Personal Income, 1970, 1980, and 1992

		Spending per $100 Income			Percentage Change		
		1970	1980	1992	1970-80	1980-92	1970-92
United States		$4.46	$4.30	$4.36	-3.6%	1.5%	-2.2%
New England	Connecticut	4.07	3.69	4.31	-9.4%	16.8%	5.8%
	Maine	5.02	4.68	5.23	-6.9%	11.9%	4.2%
	Massachusetts	3.78	4.86	3.68	28.5%	-24.2%	-2.6%
	New Hampshire	3.74	3.73	4.00	-0.3%	7.1%	6.8%
	Rhode Island	4.09	4.47	4.44	9.3%	-0.8%	8.6%
	Vermont	5.35	4.86	6.24	-9.3%	28.6%	16.6%
Mid-Atlantic	Delaware	4.56	4.89	4.14	7.3%	-15.4%	-9.2%
	Maryland	4.49	4.37	3.99	-2.7%	-8.7%	-11.1%
	New Jersey	4.21	4.78	5.02	13.6%	5.2%	19.6%
	New York	4.94	5.10	4.78	3.1%	-6.2%	-3.3%
	Pennsylvania	4.29	4.28	4.42	-0.4%	3.3%	2.9%
Great Lakes	Illinois	3.96	3.98	3.89	0.6%	-2.2%	-1.7%
	Indiana	4.28	3.92	4.69	-8.4%	19.8%	9.7%
	Michigan	5.05	5.27	5.23	4.2%	-0.8%	3.4%
	Ohio	4.00	3.97	4.63	-0.6%	16.6%	15.9%
	Wisconsin	4.83	4.56	5.17	-5.7%	13.5%	7.1%
Plains	Iowa	5.23	4.60	4.94	-12.1%	7.3%	-5.6%
	Kansas	4.62	3.90	4.46	-15.5%	14.3%	-3.4%
	Minnesota	5.57	4.85	4.61	-13.0%	-4.9%	-17.2%
	Missouri	3.91	3.58	3.87	-8.5%	8.0%	-1.2%
	Nebraska	4.44	4.34	4.81	-2.3%	10.9%	8.4%
	North Dakota	5.29	4.36	4.97	-17.5%	14.0%	-6.0%
	South Dakota	5.57	4.45	4.50	-20.1%	1.0%	-19.2%
Southeast	Alabama	4.51	4.23	3.86	-6.3%	-8.6%	-14.4%
	Arkansas	4.73	4.25	4.83	-10.0%	13.6%	2.2%
	Florida	3.99	3.37	3.65	-15.7%	8.5%	-8.5%
	Georgia	4.18	3.92	4.11	-6.3%	5.0%	-1.6%
	Kentucky	3.77	3.91	4.72	3.7%	20.7%	25.2%
	Louisiana	4.84	4.11	4.99	-15.1%	21.3%	3.0%
	Mississippi	5.00	4.73	4.49	-5.4%	-5.2%	-10.3%
	North Carolina	4.47	4.46	4.11	-0.3%	-7.9%	-8.1%
	South Carolina	5.15	4.72	4.66	-8.2%	-1.4%	-9.5%
	Tennessee	4.14	3.96	3.50	-4.4%	-11.5%	-15.4%
	Virginia	4.34	4.05	3.96	-6.7%	-2.2%	-8.8%
	West Virginia	5.16	4.81	5.74	-6.9%	19.2%	11.0%
Southwest	Arizona	4.72	4.32	4.14	-8.5%	-4.1%	-12.3%
	New Mexico	6.29	5.43	5.29	-13.6%	-2.7%	-16.0%
	Oklahoma	4.23	4.31	4.58	1.9%	6.2%	8.2%
	Texas	4.09	4.08	4.86	-0.3%	19.1%	18.7%
Rocky Mountain	Colorado	4.64	4.64	4.14	0.1%	-10.8%	-10.7%
	Idaho	4.57	4.39	4.62	-3.9%	5.3%	1.2%
	Montana	5.71	5.70	6.01	-0.2%	5.5%	5.2%
	Utah	5.68	4.97	4.98	-12.5%	0.1%	-12.4%
	Wyoming	6.00	4.91	6.52	-18.1%	32.6%	8.6%
Far West	Alaska	5.93	7.64	7.59	28.9%	-0.7%	28.0%
	California	4.33	3.75	3.73	-13.4%	-0.4%	-13.8%
	Hawaii	4.29	3.82	3.60	-9.7%	-6.9%	-16.0%
	Nevada	4.06	3.50	3.60	-13.9%	2.9%	-11.4%
	Oregon	5.36	4.78	5.06	-10.9%	5.9%	-5.7%
	Washington	5.15	4.65	4.21	-9.7%	-9.4%	-18.2%

Sources: Education Expenditure Data--National Center for Education Statistics, Digest of Education Statistics, 1994. Personal Income Data--U.S. Department of Commerce as of August 1994, reported in Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

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increasing it by an even greater rate (33 percent) between 1980 and 1992. Over the entire 1970-to-1992 period, 14 states witnessed double-digit decreases in educational effort, while 7 experienced double-digit gains. Significantly, educational effort is not strongly associated with region. States with high and low effort levels, and with small and large recent changes in their relative resource commitments to education, can be found in all parts of the country .

Examining Interstate Spending Differences

As just discussed, differences in levels of need, fiscal capacity, and fiscal effort can each help to explain varied levels of per-pupil education spending among the states. But are there patterns in the relative influences of these factors that can be useful in projecting the challenges ahead in education spending? Using the identity developed by Gold (see Section 2: Approach to the Issues), we examine the relative contribution of each in determining per-pupil expenditure levels.

Table 8 arrays states by their 1992 per-pupil spending levels, alongside measures of education need (population/number of pupils), fiscal capacity (per capita income) and education effort (education spending/$100 of personal income). The data are indexed to the national average to facilitate comparisons. A few things are noteworthy about these findings. First of all, as Gold points out, there are few common patterns among the highest-spending states; different factors are associated with high education expenditures in different places.[13] In Connecticut, bountiful tax capacity is the primary story (35 percent above the national average). Educational effort levels here are only about average. Vermont's high spending is completely attributable to its unusually high educational effort rates (it devotes nearly half of its tax revenues to education spending, the fifth highest rate in the country[14]). By contrast, high incomes and favorable population/pupil ratios allow neighboring Massachusetts to spend generously with educational effort levels that are only 85 percent of the national average.

The picture is much simpler in the lowest-spending states. As Gold also notes, virtually every one of the lowest-spending states has both low per capita income and a high need for educational services.[15] Significantly, most of the low-spending states (located primarily in the South) are making at least average levels of educational effort. However, the combination of a weak fiscal resource base and the need to support relatively large numbers of children results in low per-child service levels.

To summarize, high state per-pupil spending seems related to relatively unique combinations of need, fiscal capacity, and fiscal effort. On the other hand, low spending is consistently explained in terms of high need and/or low fiscal capacity.

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[13] Gold *et al.*, "How Funding Varies," May 1995, p. 29.
[14] Ibid., Tb. 4-12.
[15] Ibid., p. 29.

Table 8
Determinants of Education Spending per Pupil
Relative to the U.S. Average, 1992

		Education Spending Per Pupil	Index (U.S.=100)	Ratio of Population to Pupils	Index (U.S.=100)	Per Capita Income	Index (U.S.=100)	Education Spending per $100 Pers. Inc.	Index (U.S.=100)
New England	Connecticut	$8,017	148	7.19	111	$25,844	135	$4.31	99
	Maine	5,652	104	6.23	96	17,330	90	5.23	120
	Massachusetts	6,408	118	7.63	118	22,796	119	3.68	85
	New Hampshire	5,790	107	6.92	107	20,961	109	4.00	92
	Rhode Island	6,546	121	7.59	117	19,451	101	4.44	102
	Vermont	6,944	128	6.25	97	17,811	93	6.24	143
Mid-Atlantic	Delaware	6,093	112	7.25	112	20,317	106	4.14	95
	Maryland	6,679	123	7.44	115	22,483	117	3.99	92
	New Jersey	9,317	172	7.50	116	24,744	129	5.02	115
	New York	8,527	157	7.79	121	22,925	119	4.78	110
	Pennsylvania	6,613	122	7.62	118	19,638	102	4.42	101
Great Lakes	Illinois	5,670	105	7.07	109	20,622	107	3.89	89
	Indiana	5,074	94	6.26	97	17,275	90	4.69	108
	Michigan	6,268	116	6.42	99	18,693	97	5.23	120
	Ohio	5,694	105	6.83	106	18,001	94	4.63	106
	Wisconsin	6,139	113	6.61	102	17,970	94	5.17	119
Plains	Iowa	5,096	94	6.04	93	17,102	89	4.94	113
	Kansas	5,007	92	6.15	95	18,259	95	4.46	102
	Minnesota	5,409	100	6.08	94	19,289	100	4.61	106
	Missouri	4,830	89	6.89	107	18,105	94	3.87	89
	Nebraska	5,263	97	6.06	94	18,047	94	4.81	110
	North Dakota	4,441	82	5.72	89	15,594	81	4.97	114
	South Dakota	4,173	77	5.65	87	16,419	86	4.50	103
Southeast	Alabama	3,616	67	5.95	92	15,601	81	3.86	89
	Arkansas	4,031	74	5.77	89	14,458	75	4.83	111
	Florida	5,243	97	7.47	116	19,203	100	3.65	84
	Georgia	4,375	81	6.03	93	17,636	92	4.11	94
	Kentucky	4,719	87	6.47	100	15,442	80	4.72	108
	Louisiana	4,354	80	5.79	90	15,067	78	4.99	114
	Mississippi	3,245	60	5.48	85	13,210	69	4.49	103
	North Carolina	4,555	84	6.60	102	16,810	88	4.11	94
	South Carolina	4,436	82	6.16	95	15,469	81	4.66	107
	Tennessee	3,692	68	6.39	99	16,489	86	3.50	80
	Virginia	4,880	90	6.14	95	20,074	105	3.96	91
	West Virginia	5,109	94	6.07	94	14,665	76	5.74	132
Southwest	Arizona	4,381	81	6.31	98	16,760	87	4.14	95
	New Mexico	3,765	69	4.80	74	14,818	77	5.29	121
	Oklahoma	4,078	75	5.69	88	15,656	82	4.58	105
	Texas	4,632	85	5.46	85	17,440	91	4.86	111
Rocky Mountain	Colorado	5,172	95	6.33	98	19,745	103	4.14	95
	Idaho	3,556	66	4.86	75	15,854	83	4.62	106
	Montana	5,423	100	5.71	88	15,793	82	6.01	138
	Utah	3,040	56	4.14	64	14,737	77	4.98	114
	Wyoming	5,812	107	4.88	76	18,295	95	6.52	149
Far West	Alaska	8,450	156	5.16	80	21,592	112	7.59	174
	California	4,746	88	6.09	94	20,880	109	3.73	86
	Hawaii	5,420	100	6.95	108	21,621	113	3.60	83
	Nevada	4,926	91	6.59	102	20,774	108	3.60	83
	Oregon	5,913	109	6.57	102	17,789	93	5.06	116
	Washington	5,271	97	6.21	96	20,163	105	4.21	97

Note: The population-to-pupil ratios in this table differ slightly from the 1992 population-to-enrollment ratios in Table 4. Because of data constraints--primarily the need to use a consistent measure of pupils in the two variables of spending per pupil and the ratio of population to pupils for this identity--average daily attendance data were used to create the population-to-pupil ratios in this table, while fall enrollment data were used to create the ratios in Table 4.

Source: Steven D. Gold *et al.*, "New Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

Implications for the Future

The salience of income and demographic factors in explaining per-pupil spending patterns and trends has two significant implications for education spending over the next decade. First of all, it is clear that more modest income growth and sharply increasing enrollments in most states mean that they will not witness growth rates in per-pupil education spending that were commonplace during the 1970s and 1980s. As illustrated in Figure 1, school enrollment is projected to increase substantially through 2005, in sharp contrast to the declines that occurred in the 1970s and early 1980s. At the same time, growth in per capita income is projected through 2005 to be slower than the growth trends the nation has experienced in each half-decade since 1970, with the exception of the 1990-94 period. It appears that recent income and enrollment changes have already contributed to dramatic slowdowns in per-pupil spending growth during the early 1990s. The future outlook for these variables likely will further dampen per-pupil spending gains through the year 2005. Further, these projections do not take into account the looming cutbacks in federal aid outside the education arena. These are likely to exacerbate fiscal pressures on the education sector as competition for available state and local dollars becomes more intense. It may, in fact, be difficult for overall educational effort levels to remain stable in the coming decade in the face of such competition.

Second, it is extremely unlikely that disparities among states in their spending levels will be reduced much in the years ahead. Projections for income growth in the lowest-spending states are comparable, by and large, to those of the highest-spending states.[16] And while a few of the lowest-spending states like Louisiana, Mississippi, and North and South Dakota are projected to experience relatively small increases in enrollment growth, they are also among the states that are most dependent on federal aid[17] and thus most likely to be affected by grant-in-aid cutbacks. Of the 10 highest-spending states, only three (Alaska, Maryland, and New Jersey) have higher-than-average projected enrollment growth through 2005.[18]

KEY FINDINGS: PATTERNS AND TRENDS IN NON-EDUCATION SPENDING

State spending on non-education children's services is considerably smaller than state education spending.[19] In 1992, total non-education spending on children by states was about one-tenth the amount spent by states on education, representing 44 cents per $100 of personal income nationally. While the national ratio of education to non-education state spending was

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[16] U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1995, Table D.

[17] Gold *et al.*, "How Funding Varies," May 1995, Tb. 2-6.

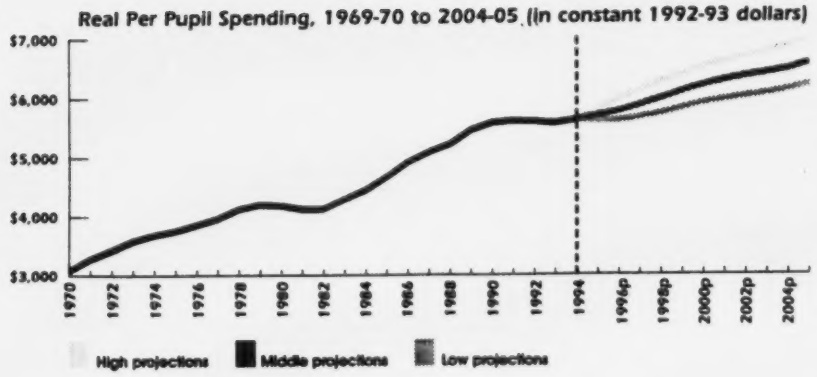
[18] U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2005 (NCES 95-169) (Washington, D.C.: Government Printing Office, 1995), Tb. 46.

[19] As noted in Section 2, state spending on non-education children's services is defined for purposes of this paper as state and local government contributions to the nine largest federal matching programs.

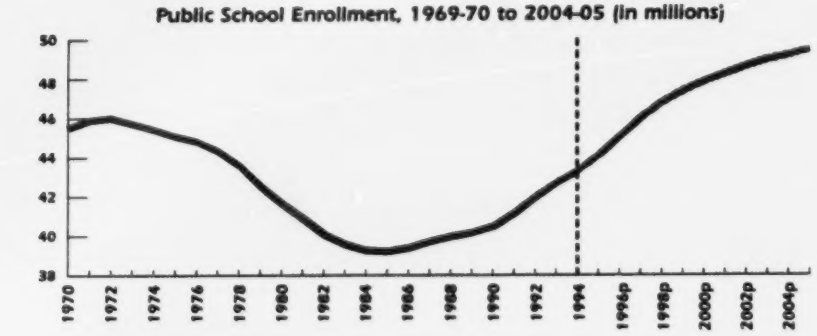
FIGURE 1

THE FUTURE OF EDUCATION SPENDING

Recent and Projected Trends in Spending, Enrollment, and Income, 1970-2005



Change in Real Per Pupil Spending (in constant 1992-93 dollars)	
1970-74	$612
1975-79	$439
1980-84	$271
1985-89	$781
1990-94	$61
1995-99p	?
2000-05p	?



Change in Public School Enrollment (in thousands)	
1970-74	-106
1975-79	-2,522
1980-84	-2,399
1985-89	981
1990-94	2,810
1995-99p	3,176
2000-05p	1,579

5-year Average Rates of Growth in Per Capita Income	
1970-74	3.1%
1975-79	2.6%
1980-84	1.6%
1985-89	1.7%
1990-94	0.6%
1995-99p	1.1%
2000-05p	1.1%

p = projected

Sources: Real per-pupil spending and public school enrollment--National Center for Education Statistics, Digest of Education Statistics, 1994 and Projections of Education Statistics to 2005; per capita income growth--Bureau of Economic Analysis, historical data and projections for 2000 and 2005 contained in *Survey of Current Business*, July 1995; and calculations by The Finance Project.

close to 10 to 1, the level of spending on each was considerably closer in two of the largest states--California and New York--and considerably more disparate in many of the southern and western states (Table 9).

The variation among states in spending on non-education programs differs among programs, but overall is much greater than the variation in education spending. The ratio between the highest- and lowest-spending states in 1992 education spending per pupil was 3 to 1. Total non-education spending per poor child, however, varied from $3,670 in Alaska to $322 in Mississippi, or by a ratio of 11 to 1. In general, states in the Northeast, Midwest, and Far West regions had higher-than-average levels of non-education spending per poor child, while states in the Southeast, Southwest, and Rocky Mountain regions had lower-than-average levels of spending. While the ratio between the highest- and lowest-spending states for Medicaid spending per poor child was 9 to 1, the variation was much greater--$2,074 to $100, or a ratio of 21 to 1--for AFDC spending per poor child (Table 10).

An important factor setting the context for state spending on non-education programs is the large degree of federal involvement in this area relative to the education area. Federal aid to education is a small share of total education spending. Nationally, it made up less than 7 percent of total elementary-secondary education spending in 1992. By contrast, the federal influence is much greater in the non-education area. Not only does the federal government set the basic parameters of the programs and some minimum standards, it provides a significant amount of the total funding. Matching rates (the percentage of state costs reimbursed by the federal government) for each of the programs are at least 50 percent--ranging up to 80 percent for the poorest states--in many of the programs, including the largest programs of AFDC and Medicaid. Thus, the variability in non-education spending per poor child would, in all likelihood, be reduced somewhat if we examined total (i.e., federal and state) spending, rather than state investments alone. However, even when considering total spending, the variation in spending on non-education programs among the states appears to remain greater than the variation in education spending.[20]

Between 1985 and 1992, overall growth in real state spending on non-education children's programs was substantial. Spending on these programs per poor child rose 56.4 percent in the average state. Most of this increase was due to rapidly rising Medicaid expenditures, with the average state experiencing a 169-percent increase over the seven years. Compared with the growth of Medicaid spending, growth in AFDC spending was relatively

[20] This is especially true for AFDC, where the ratio between the highest-spending state (Alaska) and the lowest-spending state (Mississippi) becomes 8.3 when those states' spending per poor child is adjusted by the appropriate matching rate. The ratio between the highest- and lowest-spending states on children's Medicaid spending per poor child becomes 3.6.

Table 9

State Spending on Children's Services
per $100 Personal Income, 1992

		Education Spending*	Non-Education Spending**	Ratio of Education to Non-Education Spending
United States		$4.36	$0.44	9.8
New England	Connecticut	4.31	0.41	10.5
	Maine	5.23	0.41	12.7
	Massachusetts	3.68	0.53	6.9
	New Hampshire	4.00	0.31	12.8
	Rhode Island	4.44	0.57	7.7
	Vermont	6.24	0.49	12.8
Mid-Atlantic	Delaware	4.14	0.38	11.0
	Maryland	3.99	0.40	10.1
	New Jersey	5.02	0.32	15.9
	New York	4.78	0.82	5.9
	Pennsylvania	4.42	0.42	10.4
Great Lakes	Illinois	3.89	0.40	9.8
	Indiana	4.69	0.29	16.3
	Michigan	5.23	0.57	9.2
	Ohio	4.63	0.45	10.2
	Wisconsin	5.17	0.40	12.9
Plains	Iowa	4.94	0.31	15.8
	Kansas	4.46	0.29	15.2
	Minnesota	4.61	0.43	10.7
	Missouri	3.87	0.30	13.1
	Nebraska	4.81	0.29	16.4
	North Dakota	4.97	0.25	20.2
	South Dakota	4.50	0.21	21.2
Southeast	Alabama	3.86	0.17	22.3
	Arkansas	4.83	0.23	20.8
	Florida	3.65	0.34	10.8
	Georgia	4.11	0.34	12.0
	Kentucky	4.72	0.36	13.0
	Louisiana	4.99	0.33	15.2
	Mississippi	4.49	0.23	19.4
	North Carolina	4.11	0.30	13.6
	South Carolina	4.66	0.24	19.7
	Tennessee	3.50	0.32	11.0
	Virginia	3.96	0.24	16.7
	West Virginia	5.74	0.30	19.1
Southwest	Arizona	4.14	0.24	17.5
	New Mexico	5.29	0.32	16.3
	Oklahoma	4.58	0.35	13.0
	Texas	4.86	0.25	19.8
Rocky Mountain	Colorado	4.14	0.29	14.4
	Idaho	4.62	0.19	24.9
	Montana	6.01	0.29	21.0
	Utah	4.98	0.25	19.8
	Wyoming	6.52	0.27	23.7
Far West	Alaska	7.59	0.75	10.1
	California	3.73	0.71	5.3
	Hawaii	3.60	0.40	9.1
	Nevada	3.60	0.24	15.0
	Oregon	5.06	0.33	15.5
	Washington	4.21	0.47	8.9

* includes spending from federal sources for elementary/secondary education. In 1992, education revenues from the federal government represented, on average, 6.6 percent of total education revenues.

**includes state spending matched by the federal government for the nine largest federal matching programs benefiting children. These nine programs are: AFDC, AFDC child care, Medicaid (the portion attributable to children), foster care, maternal and child health, child support, at-risk child care, adoption assistance, and child welfare.

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and calculations by The Finance Project.

Table 10

State Spending on Children's Services, 1992

		Education Spending per Pupil	Non-Education Spending per Poor Child		
			Total*	AFDC	Medicaid
New England	Connecticut	$8,017	$3,539	$2,046	$1,051
	Maine	5,652	1,500	879	442
	Massachusetts	6,408	3,142	1,790	865
	New Hampshire	5,790	2,568	1,038	958
	Rhode Island	6,546	3,076	1,730	831
	Vermont	6,944	2,528	1,454	463
Mid-Atlantic	Delaware	6,093	2,526	1,072	838
	Maryland	6,679	2,510	1,089	875
	New Jersey	9,317	2,162	1,158	653
	New York	8,527	3,279	1,480	924
	Pennsylvania	6,613	2,066	938	675
Great Lakes	Illinois	5,670	1,483	761	699
	Indiana	5,074	971	333	478
	Michigan	6,268	1,825	1,090	417
	Ohio	5,694	1,811	870	566
	Wisconsin	6,139	1,920	1,084	429
Plains	Iowa	5,096	1,611	705	577
	Kansas	5,007	1,274	546	393
	Minnesota	5,409	1,657	932	414
	Missouri	4,830	1,049	474	286
	Nebraska	5,263	1,333	459	503
	North Dakota	4,441	931	352	298
	South Dakota	4,173	730	259	275
Southeast	Alabama	3,616	436	132	156
	Arkansas	4,031	526	134	261
	Florida	5,243	1,141	500	475
	Georgia	4,375	930	436	318
	Kentucky	4,719	867	310	320
	Louisiana	4,354	491	133	236
	Mississippi	3,245	322	100	120
	North Carolina	4,555	1,070	435	435
	South Carolina	4,436	549	173	227
	Tennessee	3,692	806	245	423
	Virginia	4,880	1,401	611	502
	West Virginia	5,109	649	245	263
Southwest	Arizona	4,381	646	446	NA
	New Mexico	3,765	591	263	208
	Oklahoma	4,078	933	376	411
	Texas	4,632	605	177	296
Rocky Mountain	Colorado	5,172	1,288	577	441
	Idaho	3,556	538	190	190
	Montana	5,423	800	363	266
	Utah	3,040	801	308	243
	Wyoming	5,812	1,263	541	467
Far West	Alaska	8,450	3,670	2,074	1,085
	California	4,746	2,354	1,659	344
	Hawaii	5,420	2,045	1,361	487
	Nevada	4,926	1,259	493	576
	Oregon	5,913	1,446	767	345
	Washington	5,271	2,743	1,642	617
Ratio between Highest- and Lowest-Spending States		3 to 1	11 to 1	21 to 1	9 to 1
50-State Average		5,330	1,513	743	478
Standard Deviation		1,323	884	538	238
Coefficient of Variation		0.25	0.58	0.72	0.50

*includes state spending matched by the federal government for the nine largest federal matching programs benefiting children. These nine programs are: AFDC, AFDC child care, Medicaid (the portion attributable to children), foster care, maternal and child health, child support, at-risk child care, adoption assistance, and child welfare.

Source: Steven D. Gold et al., "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and calculations by The Finance Project.

small. Real spending on AFDC per poor child increased 19 percent in the average state over the same time period.[21]

These overall changes mask large variations in the changes occurring among states. Three states (Michigan, Minnesota, and Wisconsin) experienced overall decreases in non-education expenditures per poor child, while increases in the other states ranged up to 133 percent. Every state experienced an increase in Medicaid expenditures per poor child, but growth rates ranged from less than 10 percent in California to over 300 percent in five states (Florida, Rhode Island, South Dakota, Texas, and Virginia). Funding changes in AFDC were particularly diverse: About one-third of the states--including California, New York, and some of the other large states--decreased AFDC spending per poor child by as much as 45 percent, while another roughly one-quarter of the states increased spending by at least 30 percent and as much as 123 percent (Tables 11 to 13).

The federal influence on state non-education spending decisions is particularly noticeable in the Medicaid spending changes that states made between 1985 and 1992. Nearly all of the states with above-average increases in Medicaid spending per poor child between 1985 and 1992 had below-average levels of spending in 1985 (this pattern is especially prominent among states in the Southeast region). Increases in spending in these states can be at least partly attributable to new federal requirements during this period that expanded Medicaid eligibility and services for children.[22] These new requirements probably played a role in the reduction of interstate disparities in Medicaid spending levels for children by 24 percent between 1985 and 1992. Despite the large percentage increases in spending made by these states, however, many still had below-average levels of spending per poor child in 1992 (Table 12).

What explains these patterns of spending across states and over time? As in the previous section, we focus on the influence of service needs, fiscal capacity (ability to pay), and fiscal effort (willingness to pay) on spending levels per poor child. Below, we hypothesize how each factor might affect state spending on non-education services, and then examine state spending in relation to indicators of these factors. From these analyses, we draw implications for future state spending on non-education children's services.

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[21] Because of decreases in AFDC spending per poor child in California, New York, and other large states, the average increase for the United States as a whole (as contrasted with the average increase among the 50 states that is given above) is even smaller: 5.5 percent. Furthermore, looked at over a longer period, AFDC spending measures have actually decreased. Between 1975 and 1992, the U.S. average of state AFDC spending per poor family decreased 31.1 percent, and in relation to personal income it decreased 36.5 percent (Gold *et al.*, "How Funding Varies," May 1995, Tb. 5-10).

[22] For example, federal legislation passed in 1989 required states to cover pregnant women and children up to age 6 with incomes under 133 percent of the poverty level. Legislation passed in 1990 required states to begin to phase in coverage of all children with family incomes under 100 percent of the poverty level.

Table 11

Growth in Real Spending per Poor Child on Non-Education Children's Programs,* 1985-1992

		1985 Spending per Poor Child (in $1992)	1992 Spending per Poor Child (in $1992)	Percentage Change in Real Spending 1985-92
New England	Connecticut	$2,452	$3,366	37.3%
	Maine	1,082	1,408	30.1%
	Massachusetts	2,260	2,919	29.2%
	New Hampshire	1,210	2,319	91.7%
	Rhode Island	1,299	2,816	116.8%
	Vermont	1,084	2,211	103.9%
Mid-Atlantic	Delaware	1,222	2,444	100.0%
	Maryland	1,334	2,244	68.3%
	New Jersey	1,156	2,069	79.0%
	New York	2,098	2,576	22.8%
	Pennsylvania	1,408	1,815	28.9%
Great Lakes	Illinois	1,247	1,373	10.1%
	Indiana	589	903	53.1%
	Michigan	1,909	1,632	-14.5%
	Ohio	1,313	1,659	26.3%
	Wisconsin	1,930	1,741	-9.8%
Plains	Iowa	1,036	1,491	44.0%
	Kansas	1,022	1,135	11.0%
	Minnesota	1,705	1,538	-9.8%
	Missouri	668	909	36.1%
	Nebraska	742	1,236	66.4%
	North Dakota	712	835	17.3%
	South Dakota	389	686	76.5%
Southeast	Alabama	219	419	91.1%
	Arkansas	272	498	83.3%
	Florida	475	1,085	128.4%
	Georgia	426	879	106.4%
	Kentucky	478	763	59.8%
	Louisiana	421	445	5.7%
	Mississippi	190	313	64.6%
	North Carolina	470	1,047	122.9%
	South Carolina	334	510	52.5%
	Tennessee	329	766	133.0%
	Virginia	754	1,351	79.2%
	West Virginia	428	627	46.3%
Southwest	Arizona	263	586	123.0%
	New Mexico	347	551	58.9%
	Oklahoma	779	906	16.3%
	Texas	263	561	113.2%
Rocky Mountain	Colorado	884	1,178	33.3%
	Idaho	329	516	56.9%
	Montana	621	765	23.3%
	Utah	599	762	27.1%
	Wyoming	689	1,210	75.5%
Far West	Alaska	2,266	3,458	52.6%
	California	2,068	2,123	2.7%
	Hawaii	1,568	2,002	27.7%
	Nevada	558	1,212	117.4%
	Oregon	813	1,310	61.2%
	Washington	1,797	2,611	45.3%
50-State Average		970	1,396	56.4%
Standard Deviation		624	805	39.4%
Coefficient of Variation		0.64	0.58	0.70

*Includes state matching payments for seven of the nine largest federal matching programs benefiting children. These programs are: AFDC, AFDC child care, Medicaid (the portion attributable to children), maternal and child health, child support enforcement, at-risk child care, and child welfare services. Spending for the foster care and adoption programs is excluded because state-by-state data was unavailable for 1985.

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and Finance Project calculations.

Table 12

Growth in Real Medicaid Spending on Children per Poor Child, 1985-1992

		1985 Spending per Poor Child (in $1992)	1992 Spending per Poor Child (in $1992)	Percentage Change in Real Spending 1985-92
New England	Connecticut	$573	$1,051	83.2%
	Maine	204	442	116.6%
	Massachusetts	507	865	70.6%
	New Hampshire	310	958	209.3%
	Rhode Island	112	831	644.0%
	Vermont	153	463	203.5%
Mid-Atlantic	Delaware	268	838	213.3%
	Maryland	523	875	67.4%
	New Jersey	392	653	66.5%
	New York	514	924	79.6%
	Pennsylvania	359	675	87.8%
Great Lakes	Illinois	263	499	89.7%
	Indiana	164	478	192.3%
	Michigan	347	417	20.2%
	Ohio	342	586	71.4%
	Wisconsin	206	429	108.1%
Plains	Iowa	263	577	119.4%
	Kansas	297	393	32.5%
	Minnesota	368	414	12.5%
	Missouri	131	286	119.2%
	Nebraska	166	503	203.8%
	North Dakota	246	298	21.2%
	South Dakota	67	275	312.4%
Southeast	Alabama	40	156	286.2%
	Arkansas	90	261	188.8%
	Florida	99	475	380.4%
	Georgia	89	318	258.2%
	Kentucky	125	320	156.0%
	Louisiana	114	236	107.7%
	Mississippi	44	120	174.1%
	North Carolina	120	435	263.9%
	South Carolina	70	227	225.2%
	Tennessee	126	423	236.8%
	Virginia	93	502	439.7%
	West Virginia	110	263	139.2%
Southwest	Arizona	NA	NA	NA
	New Mexico	73	208	186.4%
	Oklahoma	302	411	36.0%
	Texas	60	296	396.3%
Rocky Mountain	Colorado	187	441	136.3%
	Idaho	52	190	266.6%
	Montana	141	266	89.0%
	Utah	156	243	55.9%
	Wyoming	120	467	288.7%
Far West	Alaska	548	1,085	97.9%
	California	319	344	7.9%
	Hawaii	279	487	74.5%
	Nevada	145	576	297.2%
	Oregon	110	345	213.5%
	Washington	286	617	115.5%
50-State Average		218	478	168.6%
Standard Deviation		144	238	124.2%
Coefficient of Variation		0.66	0.50	0.74

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and Finance Project calculations.

Table 13

Growth in Real AFDC Spending per Poor Child, 1985-1992

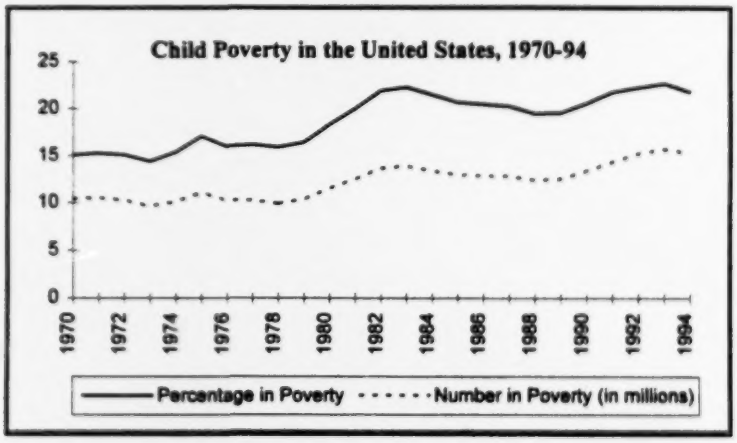
		1985 Spending per Poor Child (in $1992)	1992 Spending per Poor Child (in $1992)	Percentage Change in Real Spending 1985-92
New England	Connecticut	$1,737	$2,046	17.8%
	Maine	727	809	11.2%
	Massachusetts	1,607	1,780	10.8%
	New Hampshir	681	1,038	52.5%
	Rhode Island	1,099	1,730	57.5%
	Vermont	790	1,454	84.1%
Mid-Atlantic	Delaware	768	1,072	39.5%
	Maryland	620	1,088	75.5%
	New Jersey	647	1,158	79.0%
	New York	1,486	1,480	-0.4%
	Pennsylvania	939	938	-0.2%
Great Lakes	Illinois	921	760	-17.5%
	Indiana	347	333	-4.1%
	Michigan	1,481	1,090	-26.4%
	Ohio	893	870	-2.6%
	Wisconsin	1,597	1,084	-32.1%
Plains	Iowa	686	705	2.8%
	Kansas	628	546	-13.1%
	Minnesota	1,204	932	-22.6%
	Missouri	446	474	6.2%
	Nebraska	471	459	-2.6%
	North Dakota	349	352	0.9%
	South Dakota	224	259	15.7%
Southeast	Alabama	111	132	18.3%
	Arkansas	112	134	19.0%
	Florida	316	500	58.5%
	Georgia	268	436	62.8%
	Kentucky	266	310	16.8%
	Louisiana	241	133	-44.9%
	Mississippi	88	100	12.9%
	North Carolina	254	435	71.0%
	South Carolina	175	173	-1.0%
	Tennessee	140	245	74.6%
	Virginia	564	611	8.4%
	West Virginia	247	245	-0.7%
Southwest	Arizona	210	468	123.3%
	New Mexico	222	263	18.5%
	Oklahoma	400	376	-5.9%
	Texas	158	177	12.0%
Rocky Mountain	Colorado	586	577	-1.6%
	Idaho	186	190	2.2%
	Montana	384	363	-5.4%
	Utah	287	308	7.2%
	Wyoming	464	541	16.5%
Far West	Alaska	1,546	2,074	34.2%
	California	1,679	1,658	-1.2%
	Hawaii	1,182	1,361	15.1%
	Nevada	305	493	61.4%
	Oregon	597	767	28.5%
	Washington	1,390	1,642	18.2%
50-State Average		655	743	19.0%
Standard Deviation		486	538	33.4%
Coefficient of Variation		0.74	0.72	1.76

Source: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and Finance Project calculations.

Non-Education Spending and Need: An Inverse Relationship

The number of children in poverty is a rough proxy for the size of the population potentially requiring non-education children's services. Unlike education, for which eligibility is universal, eligibility for non-education children's services tends to be categorical and means-tested. Although income eligibility varies among (and within) programs, most of the programs are targeted on children or families who are poor or near poverty. Thus, the number of children in poverty provides a consistent and reasonable approximation of the relative size of the population in need of services across states and over time. As shown in Figure 2 below, although the child poverty rate and the number of children in poverty have tended to fluctuate with the business cycle, both nationally have been on an overall upward trend since 1970 and especially since the late 1970s. Most recently, child poverty rates increased from 19.5 percent in 1988 to 22.7 percent in 1993 before declining to 21.8 percent in 1994.

Figure 2



	1970	1980	1990	1994
Percentage of Childre in Poverty	15.1	18.3	20.6	21.8
Number of Children in Poverty (in millions)	10.4	11.5	13.4	15.3

Source: U.S. Department of Commerce, Bureau of the Census.

To examine the influence of service needs on state non-education children's spending, we use the ratio of population to poor children to express the number of children in poverty in relation to the size of the total population. Higher overall levels of need may create increased demand for more generous spending levels per poor child. On the other hand, states with greater numbers of poor children in the population may attempt to spread their spending on these politically unpopular services more thinly among poor children. Given the opposite directions in which these two considerations point, what is the actual relationship between the need for, and actual state spending on, non-education children's services?

The need for spending on non-education children's services in 1992 was highest in the Southeast and Southwest regions, and lowest in the New England, Mid-Atlantic, and some Far West states. As noted earlier, however, spending per poor child on total non-education services had a nearly opposite regional pattern. Thus, we find an inverse relationship between our measure of need and state spending per poor child on non-education children's services; that is, spending per poor child tends to be lower where the incidence of poor children is higher. In 1992, for example, the correlation between spending per poor child and overall need was -0.65. The extent of this relationship is approximately the same for AFDC and Medicaid, the two largest programs comprising state spending on non-education children's services: The correlation between Medicaid spending per poor child and need in 1992 was -0.63, and for AFDC, it was -0.55. This relationship, while much weaker, also holds for changes in state spending and need between 1985 and 1992 for total non-education spending (-0.18) and Medicaid (-0.21), but not for AFDC, where the data show virtually no relationship.

Non-Education Spending and Fiscal Capacity: A Strong Relationship

As discussed earlier in this report, fiscal capacity (as measured by per capita income) would be expected to play an important role in influencing state spending levels, and in fact is highly correlated with education spending per pupil. Fiscal capacity exerts a similarly strong influence on state non-education children's spending. The correlation between 1992 per capita income and total non-education spending per poor child is 0.83 (Table 14); for AFDC, it is 0.80; and for Medicaid, it is 0.82. As in the education area, correlations between changes in per capita income and in non-education children's spending per poor child between 1985 and 1992 are weaker but still noteworthy: 0.26 for total non-education spending, 0.24 for AFDC, and 0.21 for Medicaid.[23] [24]

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[23] In the case of state spending on non-education children's services, service needs and fiscal capacity are moderately correlated: -0.61. Thus, the states faced with relatively high needs for non-education children's services also tend to be the ones with fewer resources to meet those needs, and vice versa.

[24] A recent report of The Urban Institute contains findings similar to ours regarding the influences of need and fiscal capacity on Medicaid spending. That report finds that expenditures appear to increase as a state's tax capacity increases and as the cost to taxpayers of providing services decreases. These factors affect state policy formation which, in turn, affects expenditures. See Martcia Wade, Kathleen Adams, and Stacy Berg, *Analysis of the Recent Expansions in Medicaid Costs* (Washington, D.C.: The Urban Institute, July 1994), p. iii.

Table 14

Total Non-Education Children's Spending per Poor Child* in Relation to the Ratio of Population to Poor Children and Per Capita Income, 1992

	Non-Education Spending per Poor Child		Ratio of Population to Poor Children		Per Capita Income	
	Amount	Rank	Ratio	Rank	Amount	Rank
United States	$1,580		18.7		$19,199	
Alaska	3,670	1	23.3	22	21,592	7
Connecticut	3,539	2	33.2	3	25,844	1
New York	3,279	3	17.6	35	22,925	3
Massachusetts	3,142	4	26.0	13	22,796	4
Rhode Island	3,076	5	27.6	10	19,451	17
Washington	2,743	6	29.4	6	20,163	13
New Hampshire	2,568	7	39.3	1	20,961	8
Vermont	2,528	8	29.3	7	17,811	27
Delaware	2,526	9	33.4	2	20,317	12
Maryland	2,510	10	28.4	8	22,483	5
California	2,354	11	16.1	40	20,890	9
New Jersey	2,162	12	27.7	9	24,744	2
Pennsylvania	2,068	13	25.0	17	19,638	16
Hawaii	2,045	14	24.4	18	21,621	6
Wisconsin	1,920	15	26.9	11	17,970	26
Michigan	1,825	16	17.3	36	18,693	20
Ohio	1,811	17	22.3	23	18,001	25
Minnesota	1,657	18	20.2	28	19,289	18
Iowa	1,611	19	30.4	4	17,102	33
Maine	1,500	20	20.9	27	17,330	31
Illinois	1,483	21	18.2	32	20,622	11
Oregon	1,446	22	25.4	16	17,789	28
Virginia	1,401	23	29.8	5	20,074	14
Nebraska	1,333	24	25.4	15	18,047	24
Colorado	1,288	25	23.4	21	19,745	15
Kansas	1,274	26	24.0	20	18,259	22
Wyoming	1,263	27	25.6	14	18,295	21
Nevada	1,259	28	26.0	12	20,774	10
Florida	1,141	29	17.8	34	19,203	19
North Carolina	1,070	30	21.3	25	16,810	34
Missouri	1,049	31	19.7	29	18,105	23
Indiana	971	32	19.7	30	17,275	32
Oklahoma	933	33	17.2	37	15,656	40
North Dakota	931	34	24.3	19	15,594	42
Georgia	930	35	15.7	42	17,634	29
Kentucky	867	36	15.6	43	15,442	44
Tennessee	806	37	15.5	44	16,489	36
Montana	803	38	18.1	33	15,793	39
Utah	801	39	22.2	24	14,737	47
South Dakota	730	40	21.3	26	16,419	37
West Virginia	649	41	14.8	46	14,465	48
Arizona	646	42	16.6	38	16,760	35
Texas	605	43	14.4	47	17,440	30
New Mexico	591	44	12.6	48	14,818	46
South Carolina	549	45	15.2	45	15,469	43
Idaho	538	46	18.8	31	15,854	38
Arkansas	526	47	15.8	41	14,458	49
Louisiana	491	48	10.0	50	15,067	45
Alabama	436	49	16.3	39	15,601	41
Mississippi	322	50	10.6	49	13,210	50

*Includes state spending matched by the federal government for the nine largest federal matching programs benefiting children. These nine programs are: AFDC, AFDC child care, Medicaid (the portion attributable to children), foster care, maternal and child health, child support, at-risk child care, adoption assistance, and child welfare.

Sources: Non-education spending—Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995; Child poverty rates—Annie E. Casey Foundation, Kids Count Data Book 1995; and calculations by The Finance Project.

Non-Education Spending and Fiscal Effort: A Strong Relationship

As noted earlier, all else being equal, a state expending a greater fiscal effort (spending in relation to fiscal capacity) would be expected to have higher spending levels than one making a lesser fiscal effort. In a now-familiar pattern, states making the greatest fiscal effort in funding non-education children's services tend to be in the Northeast, Midwest, or Far West regions (including New York, California, and some of the other large states), while states making the least fiscal effort tend to be in the Southeast, Southwest, and Rocky Mountain regions. The correlation between 1992 state spending on non-education children's programs per poor child and state fiscal effort to support these programs is quite high (0.78 overall), confirming that the proportion of state income devoted to non-education children's programs is strongly associated with spending levels per poor child (Table 15). Changes between 1985 and 1992 in fiscal effort for and spending on non-education children's programs are also strongly correlated (0.80 for all programs).

These findings differ from our findings in the education area, where we found a much weaker association between fiscal effort and per-pupil spending. In education, states spending the most per pupil are only somewhat more likely to be making high fiscal effort as low fiscal effort. By contrast, states spending the most on non-education programs per poor child tend not only to have high fiscal capacity and low overall service needs, but they almost invariably devote relatively large proportions of their state income to these programs. Similarly, states spending the least tend to devote smaller income shares to these programs.

Examining Interstate Spending Differences

Table 16 shows, for each state, the components of the identity that relate need, fiscal capacity, and fiscal effort to levels of non-education spending per poor child.[25] Each variable is shown in index form, permitting easy identification of the factors influencing the level of spending per poor child in each state. From this table, for example, we can see that Pennsylvania's relatively generous level of spending per poor child (31 percent above average) is primarily a function of a favorable population-to-poor-child ratio (34 percent above average), while its fiscal capacity and effort are close to average. Michigan, on the other hand, exerts a fiscal effort that is 28 percent above average, but achieves a per-child spending level that is only 15 percent above average because of a need level that is somewhat (8 percent) higher than average combined with a capacity level that is a bit below average.

The prototypical pattern among high-spending states of low overall need, high fiscal capacity, and high fiscal effort can be observed most prominently in Table 16 among certain states in the New England and Far West regions. The prototypical pattern among low-spending states of high overall need, low fiscal capacity, and low fiscal effort can be seen in

[25] Because of differences in the population data series used to construct the two variables of per capita income and the ratio of population to pupils, the product of the three right-hand variables of the identity (the population-to-poor-child ratio, per capita income, and non-education spending effort) does not exactly equal the value of the left-hand variable of the identity (non-education spending per poor child) for each of the states.

Table 15

Total Non-Education Spending per Poor Child* in Relation to Non-Education Spending per $100 Personal Income, 1992

	Non-Education Spending per Poor Child		Non-Education Spending per $100 Personal Income	
	Amount	Rank	Amount	Rank
United States	$1,580		$0.44	
Alaska	3,670	1	0.75	2
Connecticut	3,539	2	0.41	12
New York	3,279	3	0.82	1
Massachusetts	3,142	4	0.53	6
Rhode Island	3,076	5	0.57	4
Washington	2,743	6	0.47	8
New Hampshire	2,568	7	0.31	28
Vermont	2,528	8	0.49	7
Delaware	2,526	9	0.38	18
Maryland	2,510	10	0.40	14
California	2,354	11	0.71	3
New Jersey	2,162	12	0.32	25
Pennsylvania	2,068	13	0.42	11
Hawaii	2,045	14	0.40	15
Wisconsin	1,920	15	0.40	16
Michigan	1,825	16	0.57	5
Ohio	1,811	17	0.45	9
Minnesota	1,657	18	0.43	10
Iowa	1,611	19	0.31	29
Maine	1,500	20	0.41	13
Illinois	1,483	21	0.40	17
Oregon	1,446	22	0.33	23
Virginia	1,401	23	0.24	42
Nebraska	1,333	24	0.29	33
Colorado	1,288	25	0.29	34
Kansas	1,274	26	0.29	35
Wyoming	1,263	27	0.27	38
Nevada	1,259	28	0.24	43
Florida	1,141	29	0.34	21
North Carolina	1,070	30	0.30	30
Missouri	1,049	31	0.30	31
Indiana	971	32	0.29	36
Oklahoma	933	33	0.35	20
North Dakota	931	34	0.25	39
Georgia	930	35	0.34	22
Kentucky	867	36	0.36	19
Tennessee	806	37	0.32	26
Montana	803	38	0.29	37
Utah	801	39	0.25	40
South Dakota	730	40	0.21	48
West Virginia	649	41	0.30	32
Arizona	646	42	0.24	44
Texas	605	43	0.25	41
New Mexico	591	44	0.32	27
South Carolina	549	45	0.24	45
Idaho	538	46	0.19	49
Arkansas	526	47	0.23	46
Louisiana	491	48	0.33	24
Alabama	436	49	0.17	50
Mississippi	322	50	0.23	47

*Includes state spending matched by the federal government for the nine largest federal matching programs benefiting children. These nine programs are: AFDC, AFDC child care, Medicaid (the portion attributable to children), foster care, maternal and child health, child support, at-risk child care, adoption assistance, and child

Sources: Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995, and calculations by The Finance Project.

Table 16
Determinants of Non-Education Spending per Poor Child Relative to the U.S. Average, 1992

		Non-Education Spending per Poor Chil	Index (U.S.=100)	Ratio of Population to Poor Children	Index (U.S.=100)	Per Capita Income	Index (U.S.=100)	Non-Education Spending per $100 Pers. Inc.	Index (U.S.=100)
New England	Connecticut	$3,539	224	33.2	178	$25,844	135	$0.41	92
	Maine	1,500	95	20.9	112	17,330	90	0.41	93
	Massachusetts	3,142	199	26.0	139	22,796	119	0.53	119
	New Hampshire	2,568	163	39.3	210	20,961	109	0.31	70
	Rhode Island	3,076	195	27.6	148	19,451	101	0.57	129
	Vermont	2,528	160	29.3	157	17,811	93	0.49	109
Mid-Atlantic	Delaware	2,526	160	33.4	178	20,317	106	0.38	85
	Maryland	2,510	159	28.4	152	22,483	117	0.40	89
	New Jersey	2,162	137	27.7	148	24,744	129	0.32	71
	New York	3,279	208	17.6	94	22,925	119	0.82	184
	Pennsylvania	2,068	131	25.0	134	19,638	102	0.42	95
Great Lakes	Illinois	1,483	94	18.2	97	20,622	107	0.40	90
	Indiana	971	61	19.7	105	17,275	90	0.29	65
	Michigan	1,825	115	17.3	92	18,693	97	0.57	128
	Ohio	1,811	115	22.3	119	18,001	94	0.45	102
	Wisconsin	1,920	121	26.9	144	17,970	94	0.40	90
Plains	Iowa	1,611	102	30.4	162	17,102	89	0.31	70
	Kansas	1,274	81	24.0	128	18,259	95	0.29	66
	Minnesota	1,657	105	20.2	108	19,289	100	0.43	97
	Missouri	1,049	66	19.7	105	18,105	94	0.30	66
	Nebraska	1,333	84	25.4	136	18,047	94	0.29	66
	North Dakota	931	59	24.3	130	15,594	81	0.25	55
	South Dakota	730	46	21.3	114	16,419	86	0.21	48
Southeast	Alabama	436	28	16.3	87	15,601	81	0.17	39
	Arkansas	526	33	15.8	85	14,458	75	0.23	52
	Florida	1,141	72	17.8	95	19,203	100	0.34	76
	Georgia	930	59	15.7	84	17,636	92	0.34	77
	Kentucky	867	55	15.6	84	15,442	80	0.36	82
	Louisiana	491	31	10.0	54	15,067	78	0.33	74
	Mississippi	322	20	10.6	57	13,210	69	0.23	52
	North Carolina	1,070	68	21.3	114	16,810	88	0.30	68
	South Carolina	549	35	15.2	81	15,469	81	0.24	53
	Tennessee	806	51	15.5	83	16,489	86	0.32	72
	Virginia	1,401	89	29.8	159	20,074	105	0.24	53
	West Virginia	649	41	14.8	79	14,665	76	0.30	68
Southwest	Arizona	646	41	16.6	89	16,760	87	0.24	53
	New Mexico	591	37	12.6	67	14,818	77	0.32	73
	Oklahoma	933	59	17.2	92	15,656	82	0.35	79
	Texas	605	38	14.4	77	17,440	91	0.25	55
Rocky Mountain	Colorado	1,288	81	23.4	125	19,745	103	0.29	64
	Idaho	538	34	18.8	101	15,854	83	0.19	42
	Montana	803	51	18.1	97	15,793	82	0.29	64
	Utah	801	51	22.2	119	14,737	77	0.25	57
	Wyoming	1,263	80	25.6	137	18,295	95	0.27	62
Far West	Alaska	3,670	232	23.3	125	21,592	112	0.75	169
	California	2,354	149	16.1	86	20,880	109	0.71	159
	Hawaii	2,045	129	24.4	131	21,621	113	0.40	89
	Nevada	1,259	80	26.0	139	20,774	108	0.24	54
	Oregon	1,446	92	25.4	136	17,789	93	0.33	73
	Washington	2,743	174	29.4	157	20,163	105	0.47	107

Source: The Finance Project and data contained in Steven D. Gold *et al.*, "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

most of the states in the Southeast and Southwest regions. The table also points up, however, some differences in conditions and political preferences among the states. Thus, for example, the differing fiscal effort choices of Minnesota and Missouri result in substantially different service levels in those states despite their similar levels of need and capacity, while the similar levels of spending per poor child in Kansas and Nevada are arrived at through different combinations of factors in each state.

Implications for Future Spending

Our findings suggest that many states will have a difficult time maintaining, much less increasing, their current non-education children's spending levels per poor child. The likely direction of change in most states on all three factors relating to such spending--need, fiscal capacity, and fiscal effort--leads to this conclusion. And, when coupled with impending cutbacks in federal spending, it is even more likely that overall service levels (per poor child) for non-education children's programs will be reduced in the years ahead. Furthermore, based on the relationships we found relating need, fiscal capacity, and fiscal effort to spending levels, it is all but certain that large disparities among states in spending on these programs will remain.

The trend in child poverty has been an overall increase since the late 1970s. Because the level of state spending per poor child on non-education programs is inversely related to the need for such services, if the number of children in poverty in a state (relative to the size of its population) increases in the future, spending levels per child may well be diminished.

Obtaining the resources to forestall such reductions or to improve the level of services will be increasingly difficult, however. As noted in the previous section, economic growth has been slowing over the past two and a half decades, and projections anticipate even lower levels of economic growth over the next decade. Thus, the opportunities for funding service improvements or meeting increased needs out of economic growth will be increasingly limited, as competition for state resources becomes even more intense. Moreover, there is no basis for predicting substantial future narrowing of income disparities among the states. Thus, states such as Mississippi, Louisiana, and West Virginia with the least fiscal capacity--which also tend to be those with the greatest needs--will likely continue to be those with the lowest levels of state spending per poor child, while states such as Connecticut, New Hampshire, and New Jersey with the greatest fiscal capacity--which tend to be those with the least need--will likely remain the states with the highest spending levels.

Finally, probable federal funding reductions and program changes will contribute to the problem of finding state resources to meet the need for non-education children's services. As noted earlier, the influence of federal changes is much greater in the non-education area than in education, largely because of the much larger federal role in helping states finance these programs. The elimination of matching provisions can be expected to remove an incentive for state spending, since such spending will no longer leverage federal funds. States with the highest matching rates--i.e., the poorest states--will have the least financial incentive to continue spending at current levels. Federal funding reductions may also depress overall service levels. While some states may wish to maintain previous levels of spending, the

resources they will need to replace lost federal funds will have to come entirely from state sources. In addition, the likely removal of provisions such as mandated expansions of eligibility in Medicaid, that in all likelihood had influenced some states to increase their funding in recent years, may provide further impetus for states to cut their spending. Thus, program structures and funding formulas that emerge under new federal financing arrangements should have major implications for future state spending on non-education children's programs.

SUMMARY AND CONCLUSIONS

Our primary purpose in studying state spending patterns and trends for education and other children's services is to permit us to make more informed judgments about future state financial investments in children. We employed a three-factor model consisting of measures of need, ability to pay (fiscal capacity), and willingness to pay (fiscal effort), attempting to associate each of these with state spending levels for education and non-education children's services.

Two of the three factors--need and fiscal capacity--demonstrated a similar relationship to state spending in the education and non-education children's service sectors. States with larger proportions of children needing services (the school-age population for education, the child poverty population for other children's programs), were consistently less likely to spend as much on a per-child basis as states with lower levels of need. Similarly, high-income states spent considerably more per child on both education and other children's services than did poorer states.

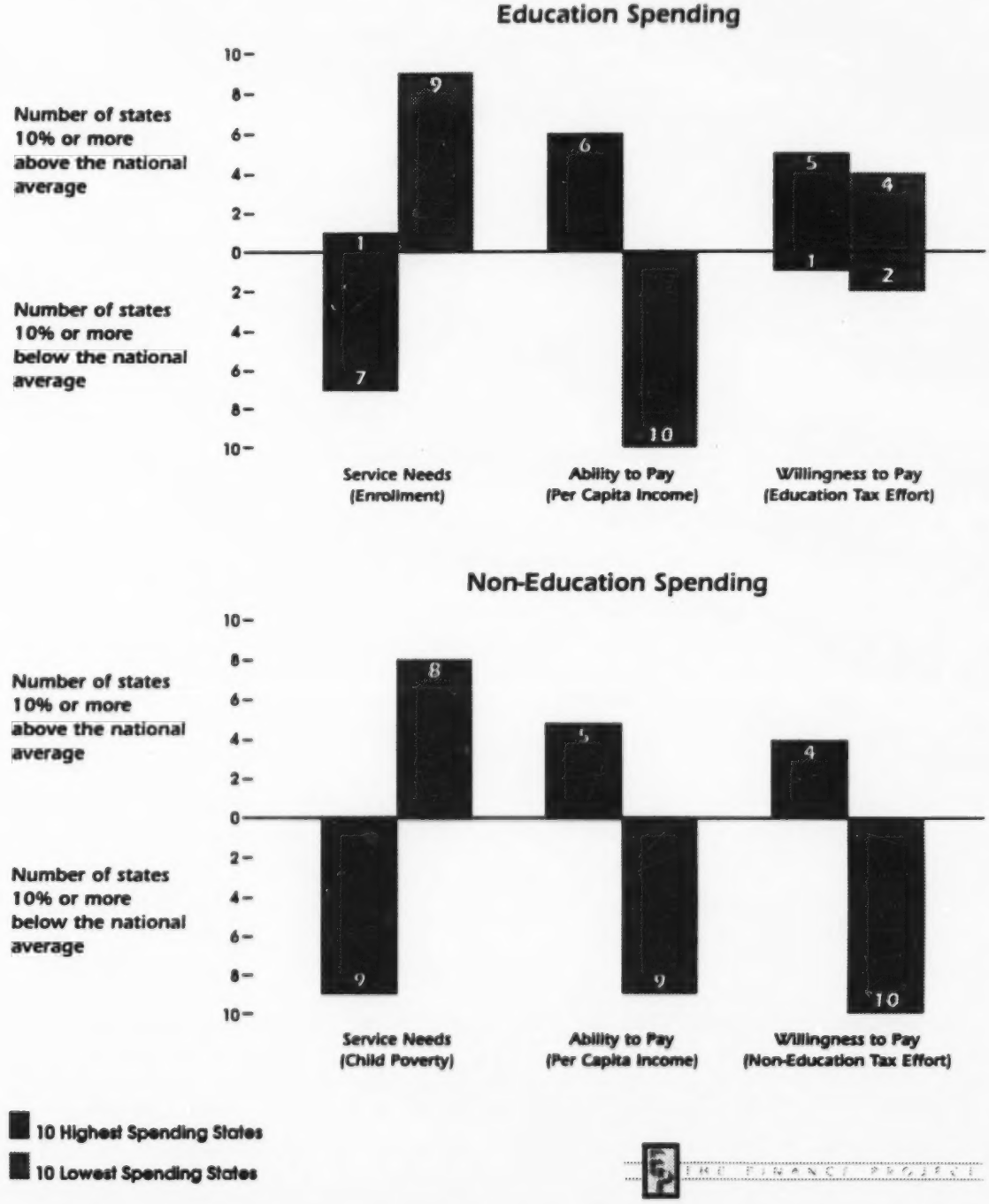
By contrast, the association between fiscal effort and state spending differed for education and other children's services. In education, the overall relationship was weak. Many low-spending states made large resource commitments to education relative to their income, while several high-spending states made a more modest education effort. In the other children's program areas, the lower-spending states were consistently the low-effort states as well, and the states spending the most often made a relatively high tax effort.

The relationship between need, ability to pay, willingness to pay, and state spending across the education and non-education children's service areas is depicted in Figure 3. The figure compares the highest- and lowest-spending-per-child states in terms of whether they are also relatively high or low in their levels of overall need, ability to pay, and willingness to pay. For example, of the 10 states spending the least per pupil on education, 9 also had particularly high overall service needs, and all 10 had an ability to pay that was relatively low. This pattern stands in stark contrast to that of the 10 states spending the greatest amount (per child) on education: Most of these states had relatively low service needs and a high ability to pay. However, no such contrasts are evident when examining the willingness to pay of high and low education spenders. While 5 of the 10 highest-spending states made a relatively large education effort, so did 4 of the 10 lowest-spending states. And only 2 of the 10 lowest-spending states demonstrated a relatively low fiscal effort, as did 1 of the 10 highest-spending states.

FIGURE 3

STATE SPENDING ON CHILDREN'S SERVICES

Comparisons of 10 Highest and 10 Lowest Spending States on Three Key Factors, 1992



Sources: The Finance Project and data contained in Steven D. Gold et al., "How Funding of Programs for Children Varies Among the 50 States," prepared for The Finance Project, May 1995.

Figure 3 is revealing in a number of ways. First, it illustrates the strong association between need, ability to pay, and spending for both education and non-education children's programs. In both the education and non-education areas, high per-child spenders are more likely to have low needs and high ability to pay, while low spenders tend to have high needs and low ability to pay.

It is the strong and consistent relationship between need, ability to pay, and state spending which, when placed in the context of demographic and economic projections, leads to concerns about future state children's spending. Factors associated with substantially higher spending levels in most states--in particular, healthy per capita income growth and declining school enrollments--are not likely to be present over the coming decade. Public school enrollments are expected to rise at a rate of about 1 percent per year between now and 2005.[26] If childhood poverty rates continue to climb as they have in recent years, and more modest per capita income growth projections prove accurate, most states will be extremely hard pressed to maintain their spending patterns of recent years on education and other children's services.

Figure 3 also illustrates again how tax effort is more strongly associated with non-education children's spending than with spending on education. In education, the lowest- and highest-spending states were about equally likely to make a tax effort that was 10 percent or more above the national average. However, in the other children's service areas, several of the highest-spending states had tax efforts that were at least 10 percent above average, while tax effort in all 10 of the lowest-spending states was 10 percent or more below average.

This discrepant impact of tax effort between the education and non-education children's sector is one of the most intriguing results from this study. How can it be explained? Different political contexts and financial expenditure incentives may both shed light on this finding. Educational effort is only moderately related to per-pupil expenditures (0.30), because effort is often strongly influenced by other independent state-specific factors such as court-ordered finance equity mandates, enrollment changes, and the political strength of teacher unions. In addition, school funding formulas in both high- and low-per-pupil-spending states reward school districts making greater fiscal effort. For example, regardless of their current spending levels, local school districts that are already inclined to make a relatively large education effort (to respond to burgeoning student enrollments, for example) are likely to be even more motivated to spend more in order to generate additional state dollars.

In the non-education children's service area, the situation is quite different. Unlike education, social welfare spending is rarely a politically popular avenue of government expenditure. The benefits of education may be perceived to be spread widely, including, for example, providing a well-educated work force for the business community, while the benefits of social welfare spending are more likely to be perceived to affect only the minority of families directly receiving those services. Furthermore, states may fear that generous social welfare spending will attract greater numbers of the needy to their state. The lowest-

[26] National Center for Education Statistics, Projections to 2005, 1995, Tb. 46.

spending jurisdictions in particular (which are almost always low-income as well) typically choose not to make generous resource commitments to non-education children's services, preferring instead to spend their resources on other types of government services, including education. And, up until now, they did not have to spend much on social welfare (relative to their income), because of generous federal matching provisions. As a result, state and local effort in low (per-child) spending states could be quite modest, while the actual level of services received (because of the high federal matching rate) would be somewhat larger.

The emerging block grant legislation eliminates federal matching requirements. As noted in a recent report, categorical grants requiring matching have consistently been found to have larger effects [on state spending] than unrestricted grants or categorical grants without a matching requirement.[27] Thus, under the block grant legislation, all states will have less financial incentive to spend state dollars on non-education children's programs. However, states that had been receiving the highest matching rates--the poorest states--will have the least incentive to continue spending at current rates. While the fiscal effort of all states is likely to be depressed, fiscal effort will probably be reduced the most in the poorest states, which also tend to be the states with the lowest spending levels. Thus, the pattern of low fiscal effort contributing to low levels of spending per poor child will tend to be exacerbated.[28]

Finally, Figure 3 shows that in each sector, the three factors (need, ability to pay, and willingness to pay) are much more strongly associated with low than high spending. For example, 6 of the 10 highest education spending states and 5 of the 10 highest non-education spending states had incomes that were at least 10 percent above the national average. But all 10 of the lowest education spending states and 9 of the 10 lowest non-education children's spending states had incomes that were at least 10 percent below the national average.

This finding suggests that we can predict the level of future children's investments with greatest confidence in states with high and/or growing needs and unfavorable economic conditions. Consider, for example, the case of New Mexico. This is a relatively poor state that is already making an unusually large tax effort in education, is highly dependent on federal aid, has a large and growing population of children in poverty, and is projected to

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[27] Robert D. Ebel, ed., *A Fiscal Agenda for Nevada: Revenue Options for State and Local Governments in the 1990s* (Reno, NV: University of Nevada Press, 1990), pp. 318-19.

[28] In Gold *et al.*, "How Funding Varies," May 1995, p. 61, the authors come to the same conclusion regarding the effect of block grants on state spending. To support their point, they cite Edward M. Gramlich and Deborah S. Laren, "Migration and Income Redistribution Responsibilities," *Journal of Human Resources* 19 (1984), pp. 489-511. Other sources in the long research tradition of studying the responsiveness of states and localities to federal grants include Edward M. Gramlich and Harvey Galper, "State and Local Fiscal Behavior and Federal Grant Policy," *Brookings Papers on Economic Activity* (Washington, D.C.: Brookings Institution, 1973), pp. 15-65; U.S. Department of the Treasury, Office of State and Local Finance, *Federal-State-Local Fiscal Relations, Report to the President and the Congress* (Washington, D.C.: Government Printing Office, 1985), pp. 153-67; and Larry E. Huckins and John T. Carnevale, "Federal Grants-In-Aid: Theoretical Concerns, Design Issues and Implementation Strategy," in Michael E. Bell, ed., *State and Local Finances in an Era of New Federalism*, Research in Urban Economics, vol. 7 (Greenwich, Conn.: JAI Press, 1988).

experience high rates of growth in its school-age population. Given these circumstances and the analyses done for this study, one cannot help but conclude that this state's fiscal challenges in funding children's services will be particularly severe in the years ahead. Other low-spending states that can be expected to have an unusually difficult time financing education and other children's services over the coming decade include Arizona, Kentucky, Louisiana, Mississippi, South Carolina, Texas, and Utah.

The effects of cutbacks in federal aid to states and localities in order to achieve a balanced federal budget can be expected to further exacerbate the fiscal stresses on states stemming from less favorable demographic and economic conditions. Federal aid currently augments state and local tax revenues by about one-third.[29] Thus, major reductions will undoubtedly put additional pressure on states to make up shortfalls in a variety of areas (e.g., transportation, higher education, community development) by raising their own spending levels. Because tax hikes are unlikely, and economic growth is expected to be modest, the revenue to fund any such increases may well come from reallocating existing resources. The education sector may become especially vulnerable, since it is the largest single functional component of state and local budgets, comprising 38 cents of every state and local tax dollar in 1992. Social welfare spending could become another prime target for reallocation, both because it is a relatively unpopular service function, and because federal eligibility standards, service mandates, and matching incentives will be reduced or eliminated under new block grant financing arrangements.

In summary, the salience of indicators of need and ability to pay in explaining state investment levels in both education and other children's services leads to the conclusion that most states will be greatly challenged in the years ahead in financing these programs. Furthermore, the strong negative relationship between willingness to pay and non-education children's spending--especially among the low-spending states--implies that finding the funds to support non-education children's services in the absence of federal fiscal incentives and service mandates may prove especially difficult in these states. The extent of the financing challenge will vary considerably by state, but, in general, a combination of increased needs, slower growth in fiscal capacity, and a reduced federal role in setting standards and providing financing will make it extremely unlikely that the vast majority of states can sustain the per-child spending patterns of the previous two decades.

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[29] Gold *et al.*, "How Funding Varies," May 1995, Tb. 2-5.

THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

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